

# Nation's Business<sup>®</sup>

The Small Business Adviser


**Change In Congress:  
A Plus For Business**

**How To Take Your  
Company Public**

**The Year Ahead  
For Franchising**

## 1995 Outlook

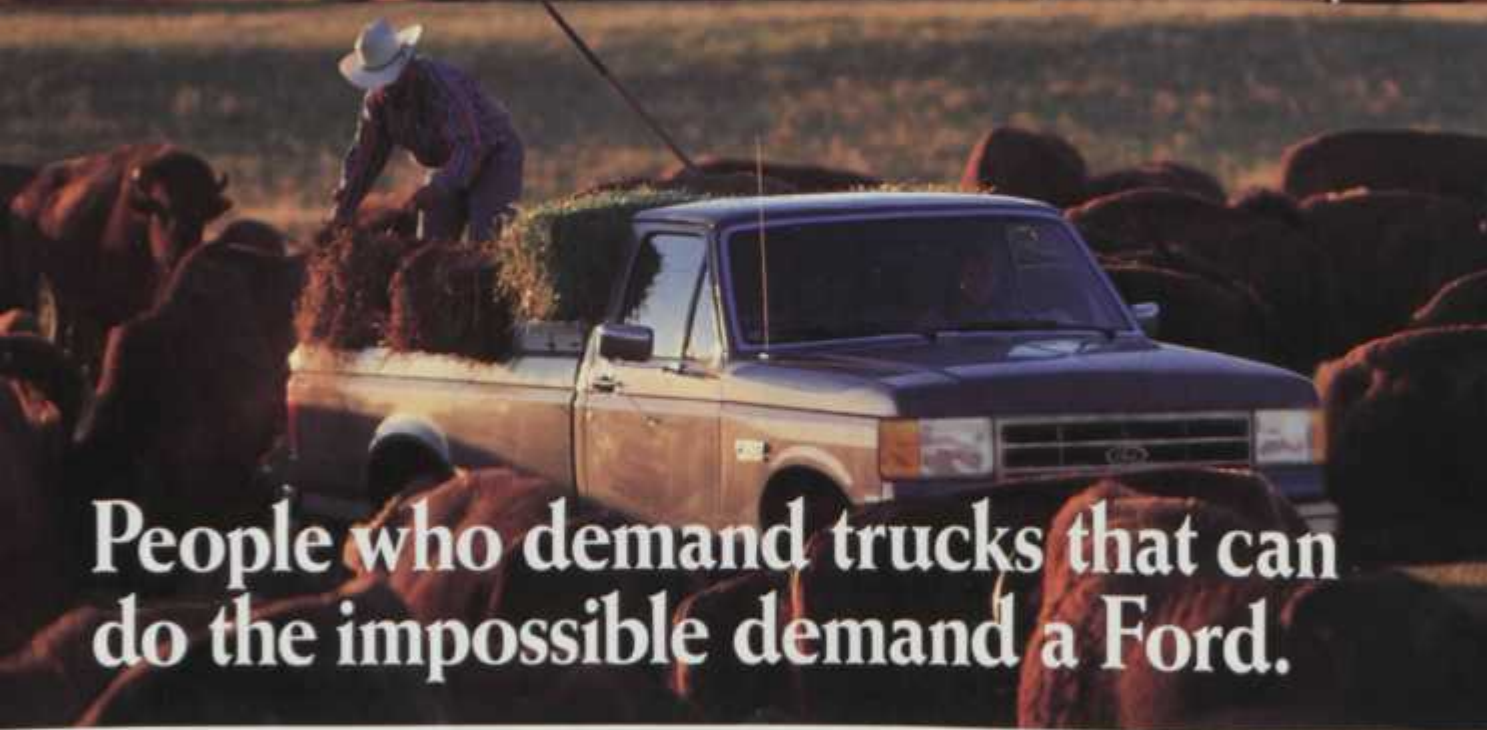
# BRIGHTER



*The new year should see  
sustainable growth—if  
the Fed doesn't overreact.*

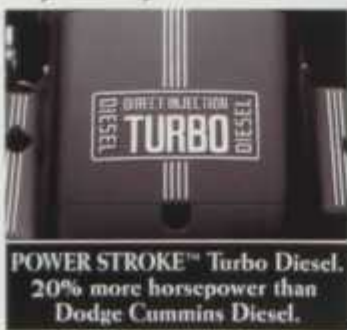
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PHOTO: SCHWARTZ/STEWART-BLACK STAR

The road ahead for the economy looks smooth and clear to Inova trucking-firm owners Joan and Wes Williams and to others who operate small companies, but interest-rate hikes by the Federal Reserve could cloud the horizon. Cover Story, Page 18.



PHOTO: SHAWNE SORCE

A stock offering fueled company growth for bridal-gown makers Jim Hjelm, seated, and Joseph Murphy. Finance, Page 30.

## COVER STORY

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# Editor's Note

## The Economy And The Fed

Two of the terms that came up frequently in the economic news as we were preparing this month's cover story were "unexpectedly" and "surprising"; they were applied to reports of business activity in the closing phase of 1994. The fourth quarter of 1994 produced a solid basis for a transition to what could be that best of all economic worlds—strong growth with moderate inflation. But as our cover illustration shows, a question mark goes with all this: What will the Federal Reserve Board do? The link between the robust performance of the 1994 economy, what's expected in 1995, and where the Fed fits in is explored in detail in this annual forecast of the business climate in the new year, beginning on Page 18.



PHOTO: STORY COPEN

Bookstore owners Susan and Arthur Bachrach found one answer for two retirement questions. *Making It*, Page 14.

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Another of this month's articles that is tied closely to the state of the economy deals with strategies for taking a company public. That move can provide capital and other benefits, but it's a long, complex process. The report, on Page 30, will help you decide whether you should take this step.

Ordinarily at this point, I would discuss other editorial content of special importance to you—and there is lots of it in this issue—but I have another type of message this month. This will be my last note to you as editor of *Nation's Business*, a position that I have been honored to hold for nearly 13 years. I am retiring as of Dec. 31 but will still be heard from occasionally in these pages as a contributing writer.

I've been with the magazine for nearly 26 years, and it has been a fascinating experience to be part of the many changes that have occurred in business over that time, particularly the rise of small business into the major economic force that it is today.

My successor as editor is Mary McElveen, who has done a tremendous job as managing editor and will do the same in the top job. *Nation's Business* will be in exceptionally good hands as it gears up for the challenges of the 21st century.

Robert T. Gray  
Editor

Cover Design: Kathleen Vetter

*Nation's Business* (ISSN 0028-0470) is published monthly at 1615 H Street, N.W., Washington, D.C. 20002-2000. Tel. (202) 462-5600 (editorial). Advertising sales headquarters: 711 Third Ave., New York, N.Y. 10017. Tel. (212) 370-1440. Copyright © 1995 by the United States Chamber of Commerce. All rights reserved. Subscription prices (United States and possessions): one year, \$22; two years, \$38; three years, \$48. For Canadian and other foreign subscriptions, add \$20 per year. Second class postage paid at Washington, D.C., and additional mailing offices. Canadian GST Registration #: R121556180. POSTMASTER: Send address changes to *Nation's Business*, 4940 Nicholson Court, Kensington, MD 20991. To inquire about your subscription, or to make a change of address, please call 1-800-438-4542, or in Maryland, 1-800-352-1450. Photocopy Permission: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, Mass. 01923, to photocopy any article herein for a flat fee of \$1.00 per copy of each article. Send payment to the CCC. Copying without express permission of *Nation's Business* is prohibited. Address requests for reprints to *Nation's Business* Reprints, 1615 H Street, N.W., Washington, D.C. 20002-2000, or call 1-800-493-4900.

Printed in the U.S.A.



# Nation's Business

# Letters

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## New Law Covers Bases, Aid To Homeless

I noted with interest your fine November cover story on the response of communities and entrepreneurs to the closing of military bases.

The article mentioned the McKinney Homeless Assistance Act of 1987, which made the closed bases available initially to

government agencies have moved in, and in some cases it's business as usual. *Wm. R. Lanphere, Executive Director Storm Lake Chamber of Commerce Storm Lake, Iowa*

[Editor's Note: A federal agency does have an opportunity to apply for use of a closed military base. NASA, for example, has taken over Moffett Field U.S. Naval Air Station in Mountain View, Calif. But as Glenn Flood, a Defense Department spokesman, says, the thrust of the base-closing program is to turn the land over to communities and create jobs, once the needs of the homeless are addressed.]



## Product Liability And Business

In his November letter, George A. LaMarca, vice president of the Iowa Trial Lawyers Association, writes in a manner that suggests that product-liability laws are the salvation of the American consumer. He states: "A business is only required to be accountable when a product is proven to be both defective and unreasonably dangerous."

If Mr. LaMarca would talk with defense lawyers and business owners, he would find that the two standards he cites have little bearing on why suits are filed, settlements are made, and judgments rendered. In a recent New Jersey case, a bicycle manufacturer (not one of my clients) had to pay \$7.1 million because a bicycle did not have a label warning that it is dangerous to ride at night without a light. Clearly, "defective and unreasonably dangerous" are meaningless concepts. *Clifford T. Elgin Louisville, Ky.*

## "A Challenge To Do Better"

I was so angry after reading Mr. LaMarca's letter that I had to respond before turning the page. He said the threat of a lawsuit "should provide a guideline and a challenge to do better." Who does he think business owners are? Brainwashed preschoolers? *Peter D. Jones, President Crystel Mfg. Inc. Lake Crystal, Minn.*

providers of homeless aid. Under the McKinney Act procedures, the aid providers were able to take years determining whether they could use the old bases. Communities were effectively barred from any potential redevelopment.

On Oct. 25, President Clinton signed into law a measure that relieves many of the McKinney Act requirements but protects the interests of providers of homeless aid. This measure is a compromise negotiated by a diverse coalition of communities, advocates for the homeless, and government agencies that I brought together. Under this new law, communities will be given the first opportunity to apply for use of a closed base and will be awarded the base as long as the community's plan reasonably accommodates the needs of the homeless.

*Rep. Doug Bereuter, R-Neb., U.S. House of Representatives Washington, D.C.*

## Is Downsizing A Mirage?

I enjoyed your cover story. The chart titled "A Farewell To Arms," which showed the number of bases closed and jobs lost, was most dramatic. But I understand that the closings are nowhere near as severe as it appears. Other

## Crippling Legal Fees

Mr. LaMarca would have us believe that only makers of "defective and unreasonably dangerous" products suffer from liability laws. But what about the cost of defending against unfounded or frivolous lawsuits? Sure, the manufacturer may win



the suit, but at what cost in legal fees? And how many cases end up being settled out of court by manufacturers to avoid higher legal fees even when they are not at fault? These considerations do keep beneficial goods and services from reaching the market.

*Paul Frehe, President  
Vistanza Co., Inc.  
Hendersonville, N.C.*

## Justice Vs. Greed

Unfortunately, a good many trial lawyers appear to be driven by greed rather than real justice. They currently have a litigation smorgasbord. It is hoped that tort reform will happen this spring.

*Richard McKelvey  
Rogers, Ark.*

## Reason For Optimism

A clear beneficiary of the Nov. 8 general election is product-liability legislation. For the past four years, such a bill has had the bipartisan support of a majority of both houses of Congress. But for 14 years, the bid for reform has been held captive by powerful congressional committee chairmen closely aligned with the Association of Trial Lawyers of America.

Last year, a successful filibuster prevented a Senate vote on a bill that was led by a strong bipartisan team and was passed on a 16-4 vote in the Senate Commerce Committee over the objections of its chairman, Sen. Ernest F. Hollings, D-S.C. The legislation has also had trouble in the Judiciary Committee.

In the House, the legislation had to pass the Energy and Commerce Committee and the Judiciary Committee. The latter has proven to be the stumbling block, with its chairman, Jack Brooks, D-

Texas, refusing to schedule a hearing.

But the defeat of Brooks in the Nov. 8 election and the inclusion of product-liability reform in the Republican Contract With America signal an end to the gridlock that has prevented passage of this bipartisan legislation.

*William D. Fay, Executive Director  
Product Liability  
Coordinating Committee  
Arlington, Va.*

## No One Left To Sue

If the product-liability laws continue unchanged, there will be no one left for the trial lawyers to sue. The designers and manufacturers will all be out of business.

*Joseph P. Forte, President  
Uniflo Conveyor, Inc.  
Wichita, Kan.*

## Unreported Tips Boost Taxes For Others

When people cheat on reporting their incomes ["The IRS Is On The Trail Of Unreported Tips," Small Business Financial Adviser, November], those who don't cheat pay more. I have no more sympathy for tax cheats than for insurance cheats or shoplifters. Neither should any small-business person. Restaurant owners who feel captive to tax-cheating employees are much like those who pay protection to corrupt unions or to gangsters.

*Larry C. Jackson  
Editor and General Manager  
Wharton Journal-Spectator  
Wharton, Texas*

## Helping Workers In Need Dress For Success

In her October letter, Bonnie L. Burkhardt suggested setting up a center where working women could donate office attire. A year ago, the Ithaca, N.Y.,

chapter of Business & Professional Women started The Dressing Room, a program to help disadvantaged women dress appropriately for jobs. Other organizations in the Ithaca area helped bring our goal to fruition. After several moves, we are ready to settle into a permanent location. We are now including men's clothing in our inventory.

We have supplied clothing for Ph.D. candidates giving papers at symposiums, young women completing degrees and going on

interviews, mothers returning to work, and even a young lady having to go to court. We would be happy to assist any group in creating such a program. Please feel free to call me at (607) 257-8500 or (607) 272-6728, or call Deirdre Yavorosky at (607) 347-4534.

*Jean C. Ballard  
Ithaca Business and Professional  
Women's Club  
Ithaca, N.Y.*



**Clothing center logo** was designed by the Morrison Advertising Agency of Ithaca.

## Media Will Amplify Any Dissent Over GOP

The new members of the House of Representatives spelled out their priorities in writing the Contract With America, referred to as "Voodoo II" by the media. The contract calls for votes—which the Democrats' House leadership never allowed—on a balanced-budget amendment, welfare reform, tax cuts for families, restoration of our national defense, a rollback in government regulation, and common-sense legal reform. These votes will bring a loud chorus of special-interest dissent, and the media will amplify the noise to a staggering level.

*Paul Green  
Roanoke Rapids, N.C.*

*[Editor's Note: This month's Where I Stand poll focuses on the Contract With America. See Page 72.]*

## Trouble Navigating 8(a) Bureaucracy

The November Entrepreneur's Notebook brought to light the value of small firms doing business with the government. As a Hispanic and female business owner, I have pursued these avenues—most recently by seeking certification as an 8(a) company—and have found the system to be totally unresponsive. At least in our region, you can't count on the agencies to take any interest in your business or to help you with the process.

*Zuni A. Corkerton, President  
RefCheck Information Services  
Hilliard, Ohio*

## Coming To Terms With Metric Labeling

Re the November article "Sizing Up Metric Labeling Rules": Sounds as if you interviewed the buggy-and-whip manufacturer and heard how we don't need those noisy, smelly, newfangled autos. I would prefer *Nation's Business* to promote the future instead of the past.

*Jon Kutz  
Lake Crystal, Minn.*

*[Editor's Note: The article was not intended to promote or disparage either the old or the metric system of weights and measures but to inform readers on the implementation of a federal regulation that affects many of them.]*

Send letters to Editor, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2006, and include your phone number. You may fax your letter to (202) 887-3437. Because of space limitations, we cannot print all letters received, and those selected for publication may be condensed.



# Entrepreneur's Notebook

By Joy Riggs

## Empowering Workers By Setting Goals

**W**hen you walk up to a golf tee, there's a sign that says what par is. When you finish the hole, your score provides immediate feedback. But in business, employees too often don't know what's par for the course.

Since 1979, my company, Employee Development Systems, Inc., based in Houston, has been creating management and employee-training programs for corporations with the aim of making clients more competitive through better employee management.

In my view, quality and productivity become workplace reality only when employees choose day-to-day behaviors that support the ideals and goals of the company. It isn't enough to "empower" workers through some corporate edict; the company must in addition provide the coaching that employees need to make self-directed change.

To meet a business's objectives, employees must have a framework in which to perform their jobs, something that says what tasks are to be performed and at what level. Employees must also receive feedback that reinforces or redirects their efforts as appropriate. It's an approach that I recommend to my clients; it's also one that helps me in managing 13 full-time employees and 10 contract trainers.

*Joy Riggs is the founder and president of Employee Development Systems, Inc., in Houston. She prepared this account with free-lance writer Susan Biddle Jaffe.*

*Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.*

I believe in setting specific standards of performance. Such standards can be tied to the performance-evaluation process, or they can be conveyed in less formal ways. The important thing is to communicate expectations.



PHOTO: ORVILLE S. HOWELL—GAMMA LIAISON

**Employee standards should be specific and attainable, says Joy Riggs of Houston.**

Some of the most compelling motivations for setting standards are quite simple:

- Standards allow a company to set the stage for success—success for the company as well as for the employee.

- Standards lay the groundwork for talking objectively about job performance rather than personalities. How much you like someone becomes less important when his or her work is evaluated against a benchmark.

- Standards help you notice and acknowledge good performance and recognize areas where improvement is needed.

By having standards, employees can manage their time and performance better; they know what they need to do. One of my account managers sees our standards—such as the number of client contacts she should make and document in a week—as a yardstick for planning her activities and focusing her attention. Knowing where she stands by midweek, she says, allows her to decide how best to spend the rest of the week.

Standards help with employee recruitment and retention. As our company recruits and hires people, they become aware of the standards for the job they will fill; they learn from the start what the job is and what kind of progress is expected of them.

Performance standards for new sales staff members, for example, are based on how long they have been with the company: less than two months, two to six months, or beyond. The new sales reps also complete individual weekly reports to

evaluate their own learning and performance. This means no surprises when it's time for a performance review.

Poorly conceived or nonspecific standards can undermine employee performance as badly as no standards at all. Requirements covering everything from punctuality to customer service to productivity should be measurable. That way, everyone knows whether the goals are being met and what, exactly, is the gap (if any) between performance and the standard. And a standard should deal with the quality of performance, not just the quantity of work.

Standards need to be achievable. I recently chatted with a man who, after taking a management post, discovered that his new staff would have had to work 100-hour weeks to accomplish everything expected of them. Of course they were going to fail.

When developing standards, discuss what is achievable with the people expected to perform the activity; you may have to set priorities.

Communicate, monitor, and evaluate. Just as we can't assume workers will know how to perform without standards, managers can't improve performance or correct problems without knowing what's going on.

Monitoring and evaluating the employees once a standard has been communicated allows you to coach them and determine what they need to excel in their jobs—and make your company excel in the process.

### What I Learned

*Communicating expectations is fundamental to creating a work force that is productive and self-directed.*



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# Dateline: Washington

*Business news in brief from the nation's capital.*

By Albert G. Holzinger

## TRADE

### GATT Votes Bode Well For More Trade Agreements

The surprisingly high margins of victory for legislation to implement the General Agreement on Tariffs and Trade (GATT) bode well for other trade-expansion measures sought by the business community.

Close votes had been expected when Congress returned to Washington recently for a rare post-election session to consider the measure. The legislation, however, passed the House on an overwhelming 288-146 vote and cleared the Senate, 76-24.

"Those votes confirm in unmistakable terms the United States' intention to remain a leader in world economic affairs," says Willard A. Workman, vice president/international of the U.S. Chamber of Commerce, which had worked more than seven years to ensure that the GATT agreement was favorable to U.S. businesses.

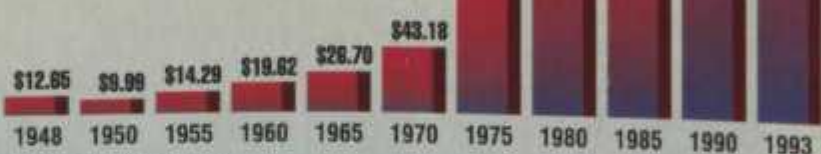
When Congress convenes Jan. 4, Workman says, it should quickly give the president authority to negotiate additional trade pacts on a "fast-track" basis. Fast-track authority means that trade pacts negotiated by the administration are voted on by Congress without amendments within a specific time.

U.S. exporters would especially benefit if the North American Free Trade Agreement, which effectively eliminated tariff and nontariff barriers to the free flow of goods, services, and labor among the U.S., Canada, and Mexico, were to be extended throughout the Western Hemisphere, Workman contends. During the recent Summit of the Americas, in Miami, the hemisphere's 34 countries agreed to pursue a free-trade pact.

When fully implemented, the 124-nation GATT agreement will cut tariffs overall by about one-third, reduce or

## Exports Under GATT

The value of U.S. exports, in billions (not adjusted for inflation), for given years since the General Agreement on Tariffs and Trade took effect in 1948.



SOURCE: U.S. BUREAU OF THE CENSUS

eliminate many nontariff impediments to trade, strengthen protections against theft of intellectual property such as patents and trademarks, and take steps toward opening trade in investments and services.

"Any way you cut it, we're the big beneficiary," says Sen. Bob Dole of Kansas, who will be majority leader in the Senate when the new, Republican-controlled Congress convenes in January.

GATT opponents argued unsuccessfully that the World Trade Organization (WTO) created under the agreement to

enforce GATT provisions would threaten U.S. sovereignty and that revenue lost as a result of GATT's lower tariffs would increase the federal deficit. The Clinton administration countered by agreeing that the U.S. would withdraw from the pact if Congress ever determined that the WTO was infringing on U.S. rights.

The administration also produced figures showing that tariff losses under GATT would be more than offset by income tax revenue accruing from the roughly 150,000 new jobs a year the agreement is expected to generate by the decade's end.

## POSTAL RATES

### Jump Hits Business Mailers Harder Than Expected

The new U.S. Postal Service rates taking effect Jan. 1 are higher than had been anticipated for the second-, third-, and fourth-class postage used by many business mailers.

The Postal Service sought an increase of 10.3 percent for all classes of mail. The Postal Rate Commission, an independent body that rules on rate-increase requests, was expected to accept the Postal Service

proposal, partly because of general support among business mailers, who historically protest all proposed rate hikes. But in its December ruling, the rate commission permitted only an average 8.9 percent increase in first-class rates, with the cost of mailing a 1-ounce letter increasing to 32 cents. The commission offset the revenue impact of its ruling on first-class rates by raising rates for other classes of mail an average of 14 percent.

Arthur B. Sackler, executive director of the Mailers Council, says that "while the

rate increases... for some mailers will be significant, they will not be severe." The council is a coalition of many of the nation's largest business mailers.

But Donna Hanbury, executive director of the Alliance of Independent Store Owners and Professionals, sharply criticizes the rate commission's decision. "For the hundreds of thousands of [small] stores that rely on mailed community papers, coupon programs, and other third-class advertising to keep in touch with customers, this really hurts," she says.



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# Managing Your Small Business

*Technology on wheels; cutting utility bills; adding imports for broadened opportunities.*

By Roberta Maynard

## TECHNOLOGY

### A Mobile Office Helps Cover More Ground

Business owners facing the not-enough-hours-in-the-day syndrome are getting help from mobile technology.

Making the most of time spent in the field is a necessity for Roger Stephenson, president of Stephenson Land Surveying, an eight-person firm based in Cassopolis, Mich. He and his three crews cover seven Michigan counties and are licensed to work in Wisconsin, Ohio, and Indiana.

Stephenson wanted to accompany his crews to sites, when possible, and at the same time do work for other clients and tend to administrative duties. With this in mind, he purchased a Chevrolet Astro EXT van with a conversion package by MO-V (Mobil Office Vehicle), based in Zeeland, Mich.

The demo unit he bought included a desk, a laptop computer, a printer, a fax machine, and a telephone. He added a drafting board that was adapted to fit the space. A new MO-V equipped like that costs about \$30,000. The vans can also be leased for \$550 to \$725 a month, depending on equipment.

The office on wheels has also provided an unexpected benefit: It impresses clients and enables Stephenson to respond more quickly to their needs. When working on a large subdivision recently, he was



PHOTO: SHANE SCOTT

*A van that has a drafting table and other equipment enables Michigan land surveyor Roger Stephenson to do office work at job sites.*

able to meet the property owners on-site and draw up topography with special software he had installed in the van's computer.

"That kind of response gives clients

confidence in a small company's ability to handle the job," he says.

Stephenson has already decided to buy another, similar vehicle when it's time to replace a second van.

## EXPENSES

### How To Negotiate Better Utility Rates

Businesses that are willing to invest some time and effort can save 10 to 20 percent on utility costs, according to John M. Studebaker, president of The Studebaker Group, Inc., a utility consulting engineering firm in Winchester, Ky.

Many companies spend more than they should for electricity, natural gas, water, and sewage disposal because they don't know what they are paying for specific services and what alternatives might be available, Studebaker says.

A company should start by asking its utilities' service representatives for the following:

- A tariff schedule.
- A list of any experimental rates being tested by the utility.
- A rebate package. It describes rebates and how to qualify for them.

■ An off-tariff schedule. It shows whether other customers with similar needs have negotiated lower rates.

The most useful of these, the tariff schedule, shows in what areas alternative rates are available and whether there are riders that modify rates (such as rates based on time of use). A tariff schedule also describes any options offered by the utility that might result in a lower rate (such as interruptible power).

This information is a matter of public record, says Studebaker, and utilities should provide copies of these documents at no cost to customers.

Here are a few strategies for saving:

- Lease, rather than buy, a transformer. The manufacturer you lease it from will maintain it.
- Buy natural gas through an independent marketer, who can lower the cost by purchasing in large quantities for several customers.

■ Seek a discount on your water and sewage bill. Find out the amount of water that doesn't go into the sewer, but elsewhere, such as a swimming pool, says Studebaker. The utility assumes that all water used goes into the sewer; the per-unit cost for sewage is higher than the per-unit cost for water. Go to the utility, he advises, and ask about an offset of the charges. The utility may allow you to calculate or estimate the amount of diverted water or actually measure it by installing a submeter.

Another source of information is the Edison Electric Institute, an industry association located in Washington, D.C. It offers several industry-specific books for businesses, such as restaurants, retail stores, and hotels, at a cost of \$2 each. For a complete list, call 1-800-EEI-5453, or 1-800-334-5453. For more information on energy use and costs, contact your local utility.



## INTERNATIONAL TRADE

### Importing Can Help A Firm Expand And Diversify

Striking a deal to import a foreign firm's goods can bring a whole new dimension to a U.S. company, as Robert Luke recently discovered.

Luke is president and co-owner of Auburn Farms, Inc., a Sacramento, Calif., company with \$15 million in annual sales. The company manufactures all-natural, fat-free snack foods, and it recently became the exclusive U.S. importer of Beacon Sweets & Chocolates of South Africa, a \$600-million-a-year candy maker that exports to 23 other countries.

While the two product lines are seemingly at odds, the strategy is meant to widen Auburn Farms' scope and help build it into a purveyor of specialty foods. To gain a foothold for the South African candy products, Luke and the company's chief operating officer, Daniel Lang, expect to rely on their existing relationships with outlets such as specialty grocery distributors and retail grocery stores.

A contact in South Africa led Auburn Farms to the candy giant, and Luke eventually spent 10 days at the South African company, located in Durban, to learn as much as he could about the firm and its corporate philosophy. In the end, he was satisfied

that he and his prospective partner shared similar ethics and policies, and they reached an agreement.

Under the arrangement, Auburn Farms buys the product outright and handles all marketing. Beacon Sweets is

■ Perform due diligence on the overseas company to confirm its financial stability.

■ Expect to have to sort out many details, such as converting currency, figuring lead time for ordering, determining suitable units of sale and prices, designing new packaging, and figuring the cost of entry into the domestic marketplace.

■ Seek a meeting of the minds, ensuring that you and your overseas partner agree on philosophy and strategy.

Within two years, Luke expects to see at least \$8 million to \$10 million in sales of Beacon Sweets products. (He plans to donate 4 percent of his profits from the candy venture to help build South African schools and housing.) Luke is already anticipating reciprocal arrangements in South Africa for Auburn Farms' products.

Such a partnership will bring not only sales but also market advantage, he hopes. "This effort has opened my eyes to a lot of products that aren't available in this country," he says. "There are a lot of market niches available that would give a small business some uniqueness. In this competitive market, that may be a company's only edge. To establish a brand that has no direct comparison [here] makes a whole lot of sense."



Candy importers expecting growth are Robert Luke, right, president of Auburn Farms, and Daniel Lang, chief operating officer.

responsible for trademark issues, configuration of the product for the U.S. market, and participation in trade shows.

Luke suggests that would-be importers do the following:

goods are sold through a variety of distribution channels. Activities such as pricing and advertising are coordinated for all channels.

■ Specialist-supported team. For firms with complex products, a sales force of generalists is combined with specialists who have strong technical knowledge about the product.

Before beginning a team system, Atkins advises, companies should communicate honestly about the changes to be made, introduce team-focused training, determine how to reward teamwork without dampening individual initiative, use pilot programs to test ideas and build momentum, and redefine the role of the district sales manager.

"Moving from a hierarchical sales organization is not easy," says Atkins. "The transition often requires changes not only in reporting and working relationships but also in the day-to-day behavior and attitudes of employees, which are often the hardest to make." Even so, he says, sales teaming may be the best avenue for revitalizing a firm's sales performance.

## SALES

### Teaming Can Invigorate A Company's Sales Force

A team approach to sales is a growing trend that can be a powerful tool for boosting sales performance, says Robert G. Atkins, a vice president with Mercer Management Consulting, based in New York.

In several firms studied by Mercer, sales teams improved productivity, increased revenue from existing accounts and attracted new ones, sped the flow of information, improved customer satisfaction, and reduced employee turnover.

Firms planning to adopt a team approach have to determine which kind of team best fits their needs, says Atkins, who has identified these four types:

■ Account team. Brings together employees of all functions that have contact with a given customer.

■ Territorial team. A group of salespeople who work in the same region but are responsible for different areas within that region.

■ Cross-channel team. Typically found in organizations where identical or similar

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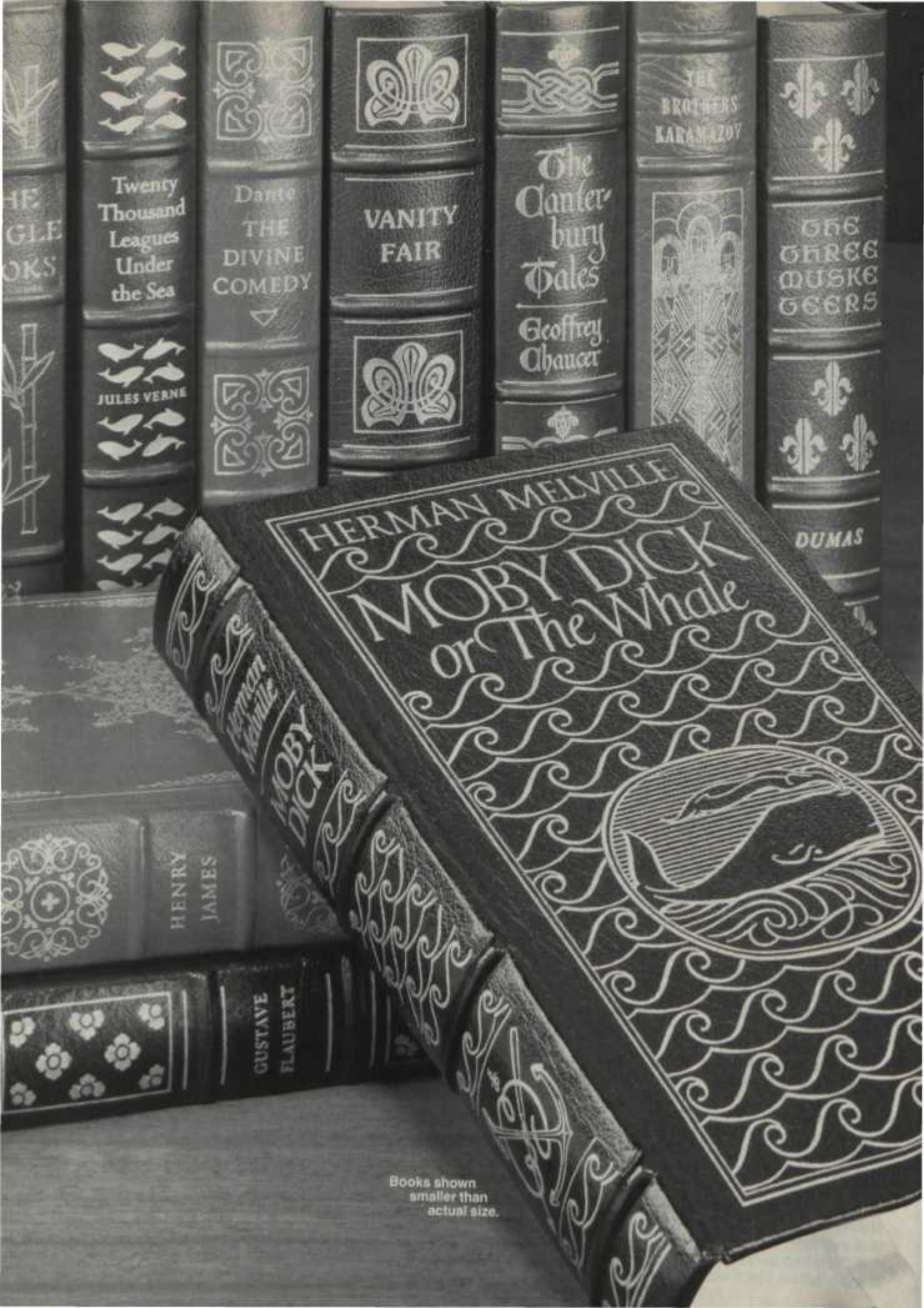
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### Selling In Europe

To boost U.S. exports to Germany, the U.S. Department of Commerce has kicked off a program aimed at finding U.S. suppliers to fill gaps in major German industries such as automotive components, electronics, and telecommunications. In response, the German Economics Ministry has offered to host a number of U.S. trade and investment missions to eastern Germany. For information on participating in this ongoing program, call the Commerce Department's German Desk officer, Brenda Fisher, at (202) 482-2435.





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# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*

## Cleaning Up By Cleaning Up

By Sharon Nelton

**W**hen graffiti appeared on an apartment building they owned in Malmö, Sweden, one day nearly a dozen years ago, Ralf and Suzanne Steinlechner had no idea that removing it would lead to a new business. Ralf already owned a string of discotheques and hamburger restaurants.

Removing the graffiti by the only method then available—sandblasting—turned out to be far more complicated than they had expected. The process not only harmed the surface of their building but also proved messy and expensive and required special arrangements to obtain sufficient water pressure and electricity. Worst of all, it didn't do the job.

"You could still see the shadows," says Suzanne. They decided there had to be a better way.

Ralf came up with the idea of carrying the necessary water and equipment in a mobile unit. And, after some research, he found a chemical that expanded paint molecules, loosening paint. Graffiti could then be removed with pressurized water. The method was quick, inexpensive, and environmentally safe. The new business, now called International Graffiti Control, was launched in Malmö.

One morning in 1985, a visitor from Bridgeport, Conn., out for a jog, saw Ralf at work on a removal job. Impressed, the American, a developer, invited Ralf to Bridgeport to demonstrate the system. Ralf made the trip and saw a tremendous opportunity, and he and Suzanne decided to give the U.S. a try for six months.

That half-year has stretched into nearly a decade. In that time, IGC, based in

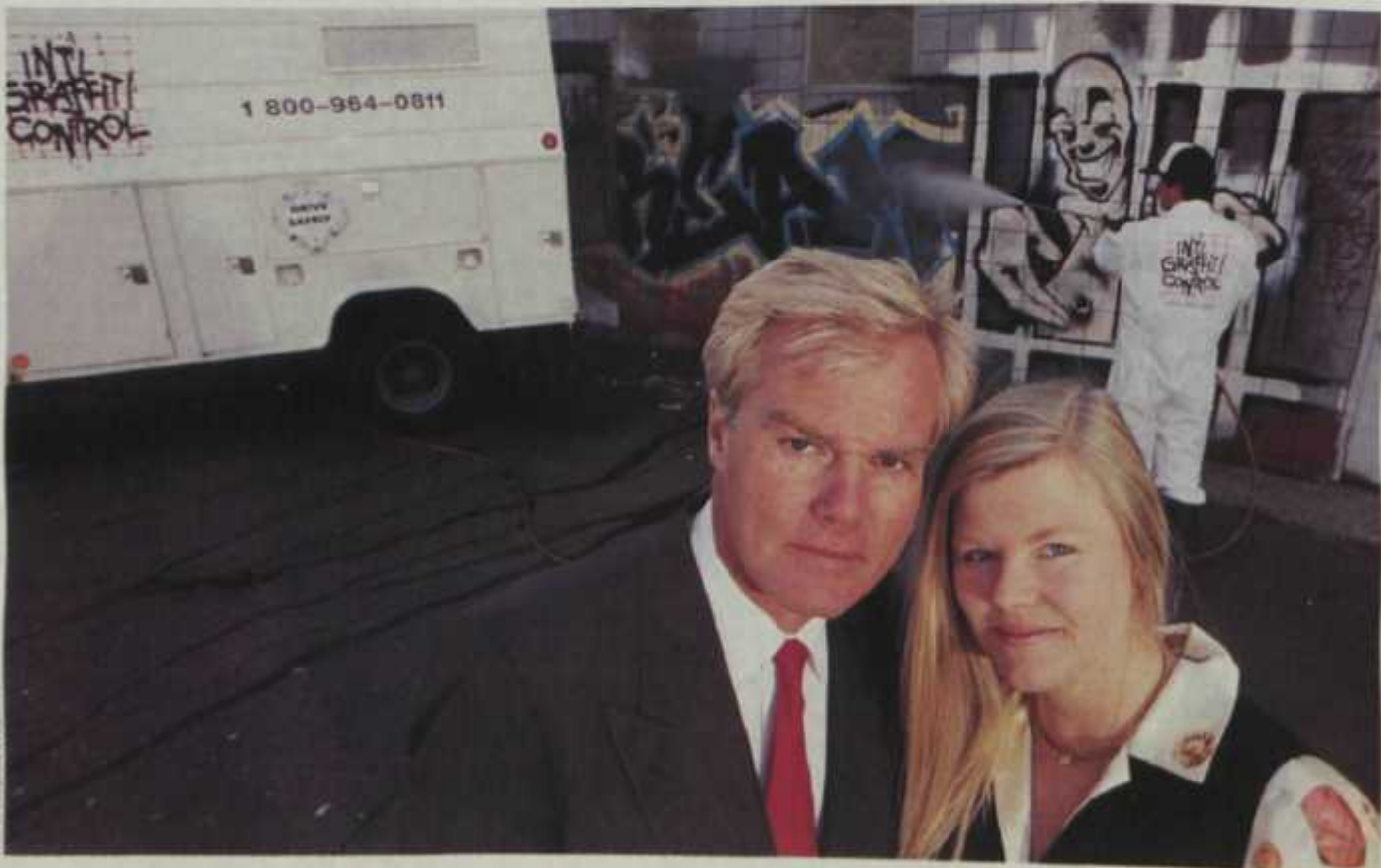
Stamford, Conn., has made graffiti disappear from bridges, schools, churches, libraries, public housing projects, and hospitals. It operates six mobile units in Connecticut, New York, and New Jersey and has licensees in France and Italy.

IGC's U.S. operation has nine employees and \$2 million in annual sales, the Steinlechners report. They don't disclose international sales figures. Ralf is the company's president; Suzanne is vice president.

Selling their Swedish enterprises and starting fresh in a new country wasn't easy. "I only did it because I was so much in love with my husband," says Suzanne. But Ralf, she points out, is an entrepreneur. "He likes to have challenges."

Ralf, who was originally from Vienna, Austria, spoke little English; at first, Suzanne, who is Swedish, did much of the translating. They found that they had to

**Cleaning crews in Ralf and Suzanne Steinlechner's Stamford, Conn., company make short work of graffiti.**





adjust to different ways of doing business. And they learned that while municipalities were eager to get rid of graffiti, they rarely allocated money to do it.

"We also realized that it takes a while to get a contract, especially with municipalities," says Ralf, who is 50. It could take a year or two before a local government made a decision.

To attract clients, the Steinlechners devised a low-cost maintenance program: A customer would pay a set fee—typically \$60 a month per building—and would know exactly how much it would be spending during the year. IGC would guarantee removal of any graffiti within seven days following a customer's call. "I think [the program] has worked for our customers," says Suzanne, 32. "They're very, very happy with it."

The risk for IGC was that it might clean up a site only to find the structure defaced again overnight. Computer software helps IGC estimate how often it will have to return to a building and how much to charge the client.

The couple's largest customer is New York City's Triborough Bridge and Tunnel Authority, which has the Steinlechners cleaning the massive bridges that connect Manhattan with two other boroughs. They also have a two-year contract with the New York City Housing Authority to keep 600 buildings clean.

They take satisfaction in playing a part in making cities more attractive. "Graffiti attracts graffiti," Ralf says. But cleanliness also attracts cleanliness, he points out, and when a site is clean, people are less inclined to mar it.

IGC has begun to sell a do-it-yourself graffiti-removal kit in Italy and hopes to introduce it in the U.S. The Steinlechners also believe there's a large market for a product they've devised to remove graffiti from interior surfaces, such as those of elevators and stairwells.

Some entrepreneurs frame the first dollar they ever earned and hang it up. On the wall at IGC, however, is a framed check from the New York City Transit Authority in the amount of \$102,371.50, dated Nov. 5, 1987, representing the Steinlechners' first large contract in the U.S., to furnish graffiti-removing materials and training. Actually, it's a photocopy. They had to cash the real thing, Suzanne says with a laugh. At that time, she says, "if we got a contract for \$100, that made our day."

## The Book On Retirement

By Michael Barrier

For many couples facing retirement, the most pressing question is where shall we live? For others, the question is what kind of small business shall we start? Sometimes the answers to those two questions can come together in a particularly satisfying way. Such has been the case for Arthur and Susan Bachrach, who own a Taos, N.M., bookstore called Moby Dickens.

Taos, which first strikes the eye as a rugged Old West sort of town (locals sneer that Santa Fe, less than two hours down the road, suffers from "terminal effiteness"), is actually an intriguing mixture. It's best known as a ski resort, an artist colony, and a center of New Age mysticism, but its population of 4,500 also harbors a surprisingly large number of book buyers.

"People come here because they want to live here," Susan Bachrach says. "One of the phrases here is, 'Be nice to your waiter; he might have three Ph.D.s.'"

With that kind of customer base, Taos supports 10 bookshops: Moby Dickens and two other general bookshops, as well as specialized and secondhand stores.

Art, 71, and Susan, 60, met at the University of Virginia when he was teaching psychology and she was studying in the nursing school. They eventually wound up in the Washington, D.C., suburbs, where they lived for 18 years.

They have lived in New Mexico since 1987. Susan first visited Taos in the fall of 1973, when she came to see a friend, "and just fell in love with it. Every place in the



PHOTO: STONY OWEN  
In Taos, N.M., Art and Susan Bachrach share their bookshop, Moby Dickens, with Mice and Ibis.

world is beautiful in late October, but here the air just glistens." With Art's agreement, she used a modest inheritance from her mother to buy a house in Taos.

A few years later, they tried to buy a local bookstore, but someone else beat them to it. The new owners went out of business in two years, though, and the Bachrachs quickly rented space for a store of their own in the same building.

Susan's retirement nest egg from the National Institutes of Health paid the rent and bought the books—getting started involved a total investment of perhaps \$25,000 to \$30,000. The store opened in November 1984. Art, then 61, had been on someone else's payroll all his life. "It was scary, in one sense," he recalls. "But I just couldn't envision sitting home or playing golf when I retired."

For the first two years, the Bachrachs were absentee owners, relying on a manager who had a degree in library science; they came to Taos at Christmas to help out when the store was busy, and again in the summer so the manager could go on vacation.

They had help, too, from a Santa Fe bookshop owner, who gave them insights into the book-buying habits of northern New Mexicans and visiting tourists. (New Mexican architecture is a popular subject—the famous Taos Pueblo is just up the road. Readers are also drawn to books on metaphysics, nature, and Native Americans. Business books sell poorly.)

To educate herself, Susan got a job in a bookstore in Potomac, Md., for two years. The owner "was very generous about teaching me everything I wanted to know," she says. "He let me order, let me pack returns, let me do whatever needed to be done." The Bachrachs moved to Taos in July 1987.

Moby Dickens—small, airy, and brightly lit—had sales of \$600,000 in 1993. The store has been averaging an impressive seven inventory turns a year—a rate that has made the Bachrachs glad they invested \$18,000 in a computerized inventory system in 1989.

Moby Dickens has been successful enough that the Bachrachs could retire for real—if they wanted to. "Every year, we have serious offers," Art says, "and we just aren't interested."



## MAKING IT

# The "Expert Beginner"

By Harriet Webster

**A**pparently nothing could stop Victoria R. Bondoc from starting—and succeeding at—a business.

Bondoc was 26 when, in 1986, using \$1,500 in personal savings, she founded Gemini Industries, Inc. Today her company, a full-service information systems and facilities management firm based in Burlington, Mass., employs 110 people and operates out of six offices in Massachusetts, New York, Virginia, and the Philippines. Nearly 95 percent of the company's work is in the form of government contracts, many with branches of

consulting firms; both assigned her to military projects.

Put off by the bureaucracy inherent in huge companies and frustrated by the difficulty of commuting several hours a day by public transportation—her poor eyesight makes driving impossible—Bondoc decided to start her own company.

Through the network of contacts she had established at the consulting firms, she won her first contract—setting up a computer system to help the Navy evaluate proposals it received from different types of companies. "It was a very small

a success record, customers gave it a bigger slice of the pie.

Bondoc met her biggest challenge in 1991 when a major contract was awarded to a competing firm. She heard rumors that the client's senior staff preferred not to deal with a company headed by an outsider—a minority woman with a physical handicap and no military background. Morale at Gemini plummeted. Several key staff members left to join other firms. Annual revenues fell 33 percent in 1992.

Bondoc confronted the crisis by meeting intensively with her management team and with customers to pinpoint what led Gemini both to its successes and to its present difficulties. The key to Gemini's eventual revitalization, she found, was to capitalize on—not minimize—the qualities that set her apart. "Ultimately," she says, "the value of what our organization brings to customers stems from the fact that I never was an insider." To recast Gemini's image, Bondoc began to market her company as the "expert beginner."

"The strength of the 'expert beginner' is that we're not predisposed to the traditional ways of solving problems. We come into the situation with a fresh perspective," says Bondoc.

The company has since won contracts with the Department of Transportation, the Air Force, Unisys Corp., Digital Equipment Corp., and even a promoter staging performances by Prince.

Earlier in 1994, Gemini was named a state honoree in the Blue Chip Enterprise Initiative. The program, sponsored by *Nation's Business*, the Connecticut Mutual Life Insurance Co., and the U.S. Chamber of Commerce, recognizes businesses that have overcome adversity.

Gemini emphasizes its ability to design technology to meet a customer's distinct needs. That's what it did at Hanscom Air Force Base in Massachusetts, where the staff was responsible for building major command-



PHOTO: SPICK FRIEDMAN—BLACK STAR

**Overcoming** a visual handicap and lack of military experience, Victoria Bondoc won contracts for her information-services firm from clients such as this unit at Hanscom Air Force Base.

the military. Revenues for 1994 are expected to reach \$5 million.

Bondoc, the daughter of Philippine immigrants, is legally blind. When she reads, the page nearly touches her face. But she has never let her lifelong vision impairment—called cone dystrophy—deter her. When she went job hunting after earning degrees in mathematics and computer science from MIT and Boston University, respectively, she didn't mention her disability to potential employers. She worked for two major

job," Bondoc says. But she impressed her client by offering to set up an office near its site in Maine for six months to provide the necessary support. "A bigger company probably wouldn't have been willing to do that," she says.

At first, Bondoc's potential military customers were reluctant to contract with a firm headed by a young woman who had never been in the military. "What they would typically do," she recalls, "is say, 'Why don't you team up with this big company, in whom we have a lot of confidence?' So they would give us a small part of a larger job." As Gemini developed

and-control systems. There, Bondoc says, Gemini developed a program "to keep track of their ongoing tasks—who was developing software, who was reviewing data, whether tasks were being accomplished on time, and so forth."

In a world characterized by rapidly developing technology, Bondoc believes the success of an organization will be determined by its attitude toward change. Gemini, she says, helps its clients "attempt to maximize their ability to initiate change, adapt to change, use change to their advantage, and work within the continuing chaos that characterizes the world."

Harriet Webster is a free-lance writer in Gloucester, Mass.



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## **INTRODUCING THE CONTROLLER-TEE SHOT AND FAIRWAY DRIVING IRONS.**

Replace your woods with these two clubs for just one round and we unconditionally guarantee they will cut 5-10 strokes off your average score. To prove it we will send you both clubs at our risk, not yours.

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This is no idle promise. Over 100,000 golfers have tested the Controller driving irons, and their reports are glowing. "Best I've ever played. I got 530 yards with back to back shots"... "What a pleasure to hit consistently down the middle!"

On and on it goes. Why? Because the Controller-Tee Shot and Fairway driving irons revolutionize golf! They hit with the power of a jumbo steel driver, automatically correct hooks and slices and perhaps most important, replace driver anxiety with the confidence of an iron. As one husky golfer put it, "They let you murder the ball without fear of losing it."

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We have tested the Controller driving irons on a hitting machine and with every imaginable kind of golfer, from sixth grade kids to lanky six-foot-six pros. We know that the Controllers are the longest and easiest-to-hit clubs you can own. But you must see for yourself; so if you don't have time for a full round, hit the Controller-Tee Shot just three times against your driver and the Controller-Fairway driving iron three times against your 3-wood.

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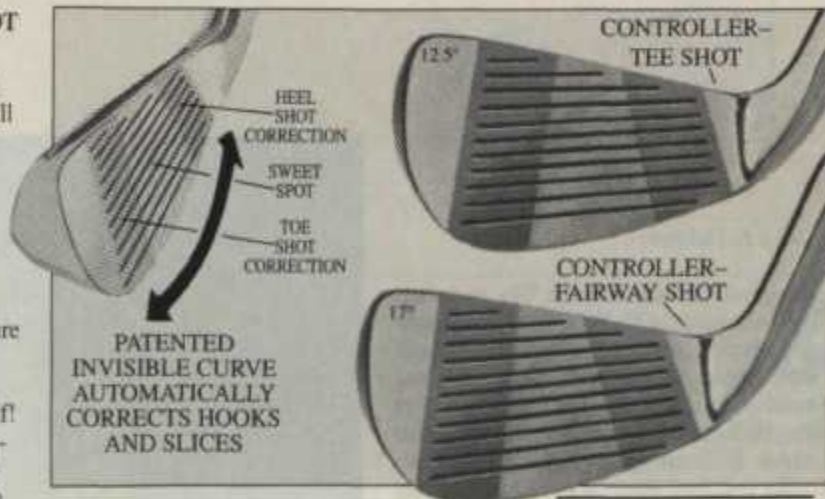
### **AUTOMATIC ACCURACY**

If you hit off the toe or heel of an ordinary iron you will get a vicious hook or slice. Not so with the Controller driving irons! These two clubs have a patented, fail-safe system we call the "invisible curve". This new patented design tames the abnormal spin imparted to the ball by a toe shot or heel shot. Instead of hooking or slicing into someone's backyard, your shot curves back toward the pin! It's an incredible sight and you can see it for yourself by purposely mis-hitting the ball. **THIS, PLUS THE CONTROLLER'S EXTRA 30-50 YARDS, AND YOU ARE VIRTUALLY GUARANTEED TO CUT 5-10 STROKES OFF YOUR GAME.**

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- They give you the power of a driver with control of an iron...
- Their sleek, smooth heads swing through grass more cleanly than a wood...

**THE CONTROLLER DRIVING IRONS HIT LONGER AND STRAIGHTER THAN ANY OTHER CLUBS IN GOLF.  
IF THEY DON'T CUT 5-10 STROKES, YOU OWE US NOTHING! ACT NOW!**



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# A Brighter New Year?

By John S. DeMott

**S**mall-business owners Wes and Joan Williams of DeWitt, Iowa, are confident that the U.S. economy will remain strong in 1995. The new year "looks better to us, better than '94," says Wes Williams. He and his wife own the Double W Trucking Co., which has seven trucks that haul grain and chemicals. They expect a strengthening of the farm economy in 1995 that will require more use of their trucks. A major customer's acceptance of a 10 percent price increase has encouraged them to boost charges to others.

The Williamses are among the many small-business people entering 1995 on a high note of optimism geared to the surprising strength of the economy in 1994, particularly in its closing months—a sharp contrast to the wariness and pessimism that prevailed in the past few Januaries.

This new year is arriving amid soaring consumer confidence, higher incomes but modest inflation, rising employment, sharply increased productivity, business capital investment running double the expected rate, and the beginning of a new global-trade era.

The Commerce Department announced that 1994's third-quarter growth was an unexpectedly high 3.9 percent, up from 3.4 percent in the second quarter.

Americans' personal income rose in October for the ninth month in a row, and their spending was up for the sixth successive month.

The Conference Board, a business-research organization, reported that its consumer-confidence index had surged in November to 101.3, the highest level since July 1990, when it reached 101.8. The board said an important factor in the surprising surge—the October index was 89.1—was the promise of major changes in federal government policies as a result of the midterm elections.

The Labor Department's monthly report on employment was also better than had been expected. The jobless rate dropped to a four-year low of 5.6 percent, and the ranks of the employed increased by 350,000, for an estimated 1994 gain of 3 million.

Another important plus for 1995, in the view of many entrepreneurs, is the shift of



PHOTO: DOBBS STEWART—BLACK STAR

**Anticipating a prosperous 1995, Double W Trucking Co. owners Joan and Wes Williams of Iowa expect to raise prices for hauling grain and chemicals throughout the Midwest.**

control of the U.S. Congress to Republicans committed to easing taxes and regulations, which small businesses have long identified as major barriers to growth.

But a significant question mark hangs over the glow of those 1995 expectations: The Federal Reserve Board continues to press its strategy of attempting to dampen economic growth by setting higher interest rates, with the ultimate aim of keeping inflation under control. That approach, however, raises serious concerns that the Fed might overshoot its mark and bring on recession.

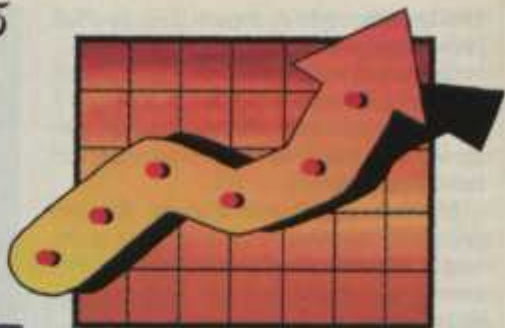
Martin Regalia, vice president and chief economist of the U.S. Chamber of Commerce and a critic of the Fed strategy, says of the central-bank officials:

"They don't want to slow the economy down tomorrow; they want it down today, and if they don't get it down, they'll raise rates again tomorrow. You can forget the soft landing; they are setting us up for a boom-bust economy. The Fed won't be satisfied until it's seen irrefutable proof of a slowdown, and by then it will most likely be too late."

And it's not a matter of the Fed's



*Small-business optimism about the 1995 economy is dimmed by concerns that Federal Reserve efforts to curb growth may prove excessive.*



Overall, the deluge of favorable economic reports triggered a Catch-22 response from analysts who expressed concern that the prospect of continuing heady growth would reinforce Federal Reserve determination to keep the economy from overheating by dampening it still further with higher interest rates.

Indeed, some analysts interpreted remarks from Federal Reserve Board Chairman Alan Greenspan on Dec. 7 and from Cathy E. Minehan, president of the Boston Federal Reserve Bank, a few days earlier as hints that further interest-rate increases might not be far off.

Greenspan told Congress that the nation is in "a very solid recovery," but he also pointed out that inflationary pressures are rising.

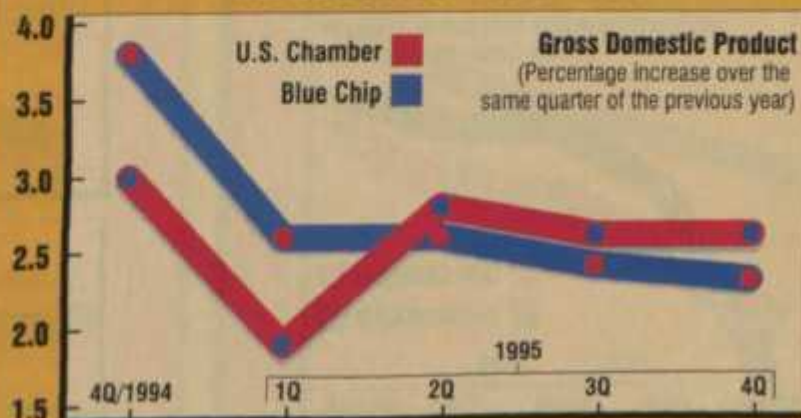
On the same day that Greenspan testified, the Federal Reserve Board issued a report stating that "prices of raw and intermediate materials continue to advance." Some of these increases are reportedly being passed on to consumers, the Fed commented.

The Fed views 2.5 percent growth as a level that will lower unemployment without igniting inflation, and the third quarter's 3.9 percent leap was seen by some observers as a guarantee that the Federal Reserve not only will raise interest rates again early in

protecting growth by holding off inflation, Regalia adds. "There is no way the Federal Reserve Board can directly affect prices," the Chamber economist says. "The sole purpose of its interest-rate increases is to slow the economy and reduce demand. Too many people forget that middle step when they talk about the Fed fighting inflation."

Other aspects of the economic surge at year's end were also greeted with some skepticism. Some critics termed the Conference Board report of soaring consumer confidence an overreaction to the election results and noted that it conflicted sharply with other measures of consumer attitudes. They also pointed out that the last such surge came on the eve of the 1990-91 recession.

## Moderate Growth



SOURCE: U.S. CHAMBER OF COMMERCE, ECONOMIC POLICY DIVISION; BLUE CHIP ECONOMIC INDICATORS



## COVER STORY

1995 but also might even push them up a full percentage point.

Greenspan's testimony was interpreted in some quarters as a signal that the board did not think that the six interest-rate increases in 1994 through November had the desired effect.

Minehan, the Boston Federal Reserve president, said that "any doubts about the continuing strength of the national economy have been diminished by recent data," including the third-quarter report.

While Minehan did not indicate specifically whether she felt additional rate increases were needed, Fed watchers noted her comment that "there's been very strong growth. . . it's wise to take some lessons from the past and buy a bit of insurance." She also said that "the continued strong data keeps Wall Street wary that the Fed's program for tightening may not be complete."

Although Minehan expressed satisfaction with inflation-containment measures, she also commented: "By any measure, we are at or very close to the rate of unemployment that analysts believe is the best we can do without putting upward pressure on prices."

For the first 10 months of the year, the Consumer Price Index was rising at a 2.6 percent annual rate, compared with 2.7 percent for all of last year.

Minehan, who is scheduled to join the Fed's policy-setting Federal Open Market Committee in January, also noted that there is a lag of six to nine months between a Fed tightening action and the point at which it has taken full effect.

In the central bank's latest interest-rate actions, in mid-November, the federal funds rate on overnight loans between banks was increased to 5.5 percent from 4.75 percent, and the discount rate on loans to member banks went to 4.75 percent from 4 percent. The rise of three-fourths of a percentage point was the largest increase since 1981.



PHOTO: T. MICHAEL KEZA

Surveyors John Arleth and Karen Auchampach believe increased gold-mining activity in South Dakota will help their firm's bottom line.

As the board intended, the prime, mortgage, and other interest rates went up in response to each of the Fed's increases in 1994. The prime rate is what banks charge their best corporate customers. It is the basis for setting rates for many other types of commercial loans. The prime went from 6 percent in January to 8.5 percent near year's end.

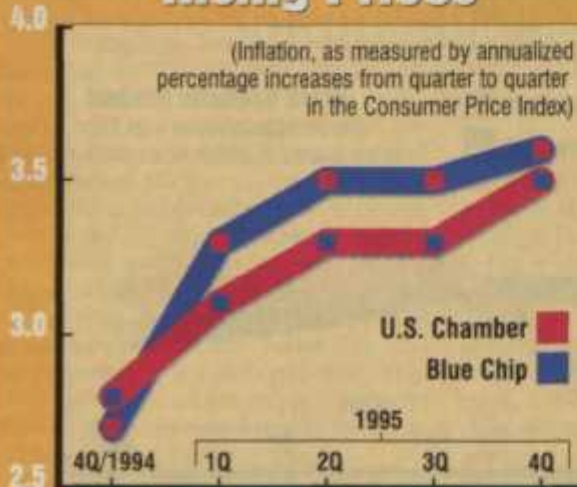
Analysts not only were surprised by the size of the Fed's November rate increase—three-fourths of a percentage point on both the federal funds and the discount rates—but also were concerned that it was not accompanied by assurances that it would suffice for some time. U.S. Chamber economist Regalia noted that the central bankers' increases had moved from one-fourth of a

percentage point to one-half to three-fourths of a point as the Fed continued to boost rates throughout the year and that further hikes would probably be in the higher range.

As the experts were analyzing the data and trying to divine the central bankers' next move, individual small-business owners like Wes Williams were gearing their expectations for the new year to prospects for their own companies. And they have generally concluded that those prospects are good. That view reflects the classic entrepreneurial optimism that has survived the many economic shocks of recent decades.

Karen Auchampach of Arleth and Asso-

## Rising Prices



## Stable Interest Rates





ciates, a Deadwood, S.D., surveying firm that does a lot of work for the Black Hills gold-mining industry, says, "Things look really good over the next three-to-five-year period."

Jane McBride, chief executive of Flight Time International, a Boston firm that charters airliners for corporate customers, says: "We're very excited. This is going to be the best year for us in the last 10."

Taking the national view, economist Allen Sinai of Lehman Brothers in New York City says that the best is yet to come for Main Street America "as 1995 brings widespread gains in business activity, profits, and incomes, across almost all regions, industries, and households."

It is that very sort of strong economic activity that, ironically, motivates the Federal Reserve Board to consider further rate increases designed to curb growth. Noting an 84.9 percent factory-utilization rate and a continuing increase in retail sales, the Federal Reserve Board said the latest interest-rate hikes were "necessary to keep inflation contained and thereby foster sustainable growth."

Maurine Haver, president of the National Association of Business Economists, says "the economy has remained very resilient this year [1994] in the face of higher interest rates," but she believes the pace is "unlikely to be sustainable." The association forecasts a 1995 slowdown as a result of a decline in spending for inventories and the Federal Reserve's interest-rate strategy. The latter, she says, is expected to reduce capital



PHOTO: T. MICHAEL KEZA

**Chief economist** Martin Regalia of the U.S. Chamber of Commerce forecasts moderate growth and recommends that small firms stay flexible.

investments and hurt real-estate sales.

David Lereah, chief economist of the Mortgage Bankers Association, in Washington, says he fears that the economy won't react to what the Fed is doing, forcing still higher interest rates—and, eventually, recession. He says that the November interest-rate increase not only will add \$10 billion a year to mortgage payments but also will price many first-time buyers out of the housing market.

For the economy as a whole, economists see slower but still respectable growth of the gross domestic product, the sum of all goods and services produced in the United States. The U.S. Chamber is predicting a 2.6 percent increase in real GDP growth after discounting for inflation. Growth aver-

aged 3.8 percent over the first three quarters of 1994.

The Chamber forecasts inflation at 3.2 percent in 1995, compared with its projection of 2.8 percent for 1994; short-term interest rates at 6.2 percent, up from 5.2 percent; and a slight lowering of long-term rates to just under the 8 percent level they reached in 1994. Unemployment, the Chamber calculates, will stay nearly flat in 1995 at 5.7 percent.

Another highly respected forecasting operation, Blue Chip Economic Indicators, in Alexandria, Va., predicts a 2.7 percent rise in GDP, a 3.4 percent increase in the Consumer Price Index, a slight rise in short-term interest rates, but a stabilizing of long-term rates at "not much higher" than 8 percent.

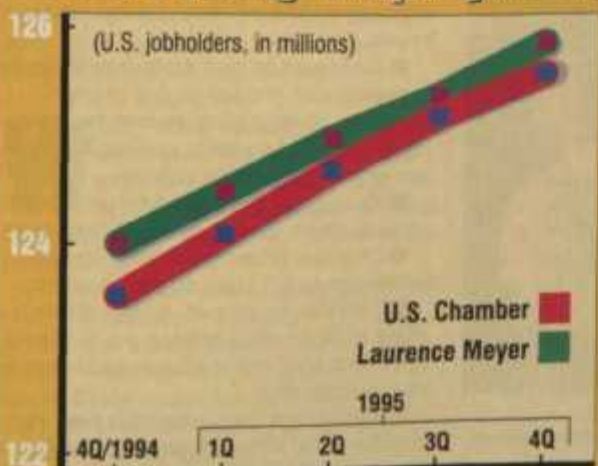
Although expectations of most forecasters for growth in 1995 are below 1994 levels, the slowdown is viewed more as a shift to sustainable levels than a troubling downturn.

In its report of 3.9 percent growth in the third quarter, the Commerce Department cited rising automobile sales and solid increases in the sales of new homes even though mortgage interest rates had inched up above 9 percent.

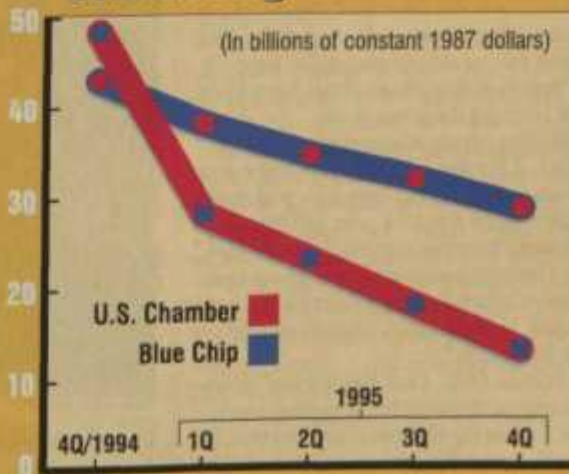
Long-term interest rates, as measured by 30-year Treasury bonds, hovered around 8 percent, which was close to a 2½-year high, yet they appeared to be resistant to rising much higher.

Paced by the strong auto sales, manufacturing showed strong gains. The National Association of Purchasing Manage-

## Increasing Employment



## Shrinking Inventories





## COVER STORY

ment's index of factory output was at 59.7, its highest level in seven years. A purchasing index above 50 indicates an expanding economy.

Manufacturers' inventories swelled to \$123 billion during the spring and summer in anticipation of sales demand. That was "surprisingly strong" growth, says Robert Barr, the U.S. Chamber's deputy chief economist. But this could mean some economic slowdown in 1995 as the inventory is worked off.

Christmas sales got off to a strong start, supporting retailers' expectations that final totals would show a year-to-year rate of increase better than 1993's disappointing 4.3 percent.

**A**lthough he is concerned about the impact of higher interest rates, U.S. Chamber chief economist Regalia says the small-business outlook is good—"not great, but good—better than it was in 1992, about like it was in 1993, and better than it was in 1994."

Regalia's advice to small business: "Quit trying to predict the economy, keep your costs under control, and stay as flexible as you can possibly stay and still do business. Concentrate on the business and the customer and not the financial markets."

Larry Winters of Dun & Bradstreet's small-business services operation reported that business-to-business queries, which often translate into actual business, were up "sharply" in 1994 as businesses



PHOTO: STEVE JENNINGS

**Partners** Ron Amyx, left, Bill Jameson, and Kim Brown expect solid sales gains for Calibrated Forms, in Columbus, Kan.

sought out one another as customers.

Business confidence was up, too. The U.S. Chamber's Business Confidence Index rose to 56.7 in October, up from 49.9 in August and the highest level since it reached 59.3 in April 1993. An index of 50 means that the number of firms expecting increases in their sales, employment, and the general economy over the next six

months is equal to the number expecting decreases.

Nearly 30 percent of the respondents said they expect the economy to improve over the next six months, up from 21 percent in August. Nearly 50 percent expect sales increases through next April, while 24 percent expect to hire workers over the same period. The sales and hiring numbers are up from 37.7 percent and 19.5 percent, respectively, over the August figures.

Dan Sautner, chairman of Padgett Business Services, in Athens, Ga., says his small-business clients are "generally optimistic" about 1995 and not worried about things like interest rates that generally are of greater concern to larger companies. He notes, however, that interest rates "create uncertainty in the economy, and that's never good for business, especially service retail."

Business owners interviewed by *Nation's Business* said they plan at least modest expansion of employment and physical facilities in 1995. While a hang-tough wariness prevailed in an uncertain recovery in 1994 and busi-

ness owners were downright pessimistic when they looked toward 1993 and 1992, their outlook for 1995 not only is upbeat but also is based on solid prospects.

Karen Auchampach of the Deadwood, S.D., surveying firm, which has 10 employees, bases her optimism on the extent to which major mining companies are flocking to the area as demand for gold

## Cautious Moves On Price Hikes

Some small businesses expect that the 1995 economy will be strong enough to support price increases that many firms have been unable to make for some time.

Computer-repair entrepreneur Larry Troemel of Preferred Computer Services, in Downers Grove, Ill., says he's planning a 3 percent price rise this year, his first in four years, "to cover our cost of overhead." He has been absorbing higher prices that have been passed along to him by his large suppliers, he says, but "at some point you've got to counter it."

In Toledo, Ohio, Paul Reichert of Reichert Stamping expects to be paying 5 to 6 percent more for the steel that he buys, but he hopes to be able to pass most of the

increase on to his automobile-industry customers, something he hasn't been able to do this decade. He thinks there's a good chance



PHOTO: KATHI ZICH

**Computer-services** provider Larry Troemel hopes for brisk business in repairs.

that his increases will stick, although he concedes that his situation is highly competitive.

Enterprises that have adopted price-increase strategies offer this advice to businesses thinking about raising their own prices:

- Document to your customers the price increases that you are paying to your suppliers. Show customers how you have absorbed past increases, and explain that you are no longer able to do so.

- Be open and upfront with price increases. Don't simply send higher invoices.

- Increase prices selectively. Avoid across-the-board hikes on your products.

- Don't let up on cost-cutting efforts, which will pay off in helping you hold your price increases to a minimum and become more competitive.

- Be a tough negotiator with your own suppliers, and refuse to pay higher prices if you do not think they are justified.



rises. The region as a whole expects a good year, she says, because "there are a lot of projects going on"—including actor Kevin Costner's resort hotel and a bustling casino-gambling industry in downtown Deadwood (population 2,500). Auchampach's biggest worry: federal environmental rules that might cut into mining activity and hurt her surveying business.

At Flight Time International, in Boston, Jane McBride says her forecast of a 10-year high point for the firm stems from activity that she is already seeing—a doubling of scheduled business for 1995. This, she adds, is a sure sign that corporate travel budgets are rising again.

Larry Troemel, president and co-owner of Preferred Computer Services Inc., in Downers Grove, Ill., says 1995 "looks rosy. I'm hopeful for an outstanding year." Many of his corporate clients are increasing budgets to repair and upgrade computers rather than replace them, he explains. His company, with 38 employees and sales of about \$2 million annually, repairs computers for major clients like the Internal Revenue Service, makes and sells a computer under the Precom label, and organizes computer-repair training classes for clients.

Ron Amyx, president of Calibrated Forms, in Columbus, Kan., a major regional printer, says, "We're seeing strong growth possibilities for the next five years." He's planning to add employees and plant space in 1995 and intends to match his annual sales growth rate of about 35 percent.

Jeff McAleer of the Sunshine Cycle Shop, in Clemson, S.C., says his store, which serves Clemson University students, is coming off a good 1994. "Bikes are going to keep going whether the economy is going well or not, unless it goes all to pieces," he says. "There's no place to park [cars] around here."

**W**hile small businesses on the front lines generally base their expectations on their local demand, other forces at work will help determine how the overall economy performs.

If Wes Williams' trucking company and other businesses succeed in raising prices, the broad impact could be inflationary pressures that will trigger further interest-rate increases designed to curb the type of expansion that permits higher prices in the first place.

And pressures to raise interest rates will come not only from the Federal



PHOTO: SHIRLEY PRICE

Sunshine Cycle's Jeff McAleer expects his usual steady trade from Clemson University students, in Clemson, S.C.

Reserve Board's concern about domestic inflation but also in connection with the currency-exchange rate. The dollar, continuing its long slide, plunged in November to a World War II low against the Japanese yen and to a near-record low against the German mark.

Although the Clinton administration up to then had encouraged the cheaper dollar because it creates jobs at home through increased exports, the White House decided things had gone too far. As a result, the Treasury Department moved to prop up the dollar by buying an estimated \$250 million to \$1 billion on currency exchanges. But currency traders said Treasury's aggressive moves would mean little unless U.S. interest rates rose at the same time to make the greenback more attractive to investors.

Although a strengthening dollar could mean lower prices for the machinery and components that small manufacturers import, it would also mean U.S. exports would be costlier in foreign markets.

Nonetheless, international trade continues to offer U.S. businesses of all sizes rapidly expanding opportunities for increased sales. Economist Sinai of Lehman Brothers notes that the economies of

other countries are growing faster than America's and says that 1995 should be the best year for U.S. foreign trade since 1987.

Prospects for increasing international opportunities for U.S. firms have expanded enormously as a result of this country's approval of the North American Free Trade Agreement in 1993 and the General Agreement on Tariffs and Trade (GATT) this past December.

Also boosting trade prospects are the continuing efforts to reduce barriers to increased business with countries in Latin America, the Pacific Rim, and Southeast Asia.

Increased trade under the GATT, which is designed to sharply reduce trade barriers throughout the world, will add \$100 billion to \$200 billion to the U.S. gross domestic product over 10 years, supporters of the agreement say.

And the U.S. is certainly better positioned now than it has ever been to succeed in world markets. The Switzerland-based World Economic Forum reported recently that U.S. corporate downsizing, re-engineering, and heavy investment in computer technology have made U.S. companies No. 1 in productivity, outstripping their counterparts in Germany and Japan.

**T**rade prospects are but one factor in the complex mix that is the U.S. economy at the beginning of the new year. Others are the durability of consumer confidence, how the new political structure in Washington will affect business when Congress begins turning out legislation, the extent to which price increases clash with the Federal Reserve Board's anti-inflation strategy, and the nation's ability to avoid the boom-and-bust cycle of earlier years.

Cathy Minehan, the Boston Federal Reserve president, describes the nation's economic goals at the outset of 1995:

"On the one hand, we have to avoid the buildup of inflationary pressures during the first half of the year. On the other hand, we need to be careful about overdoing it and slowing things too much when the full effects of higher interest rates kick in."

While there might be disagreement over the best ways of achieving those goals, she finds little argument in her description of that challenge: "This is a delicate balancing act, to be sure."



To order a reprint of this story, see Page 74. For a fax copy, see Page 36.





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## POLITICS

# Improved Prospects On Capitol Hill

By David Warner

**B**efore the Nov. 8 elections, businesswoman Susan Ganey held out little hope for a business-friendly legislative and regulatory agenda from federal lawmakers in 1995.

"As a small-business owner, I was concerned about doing business mainly because of the mandates and all the regulations that Congress put on us," says Ganey, president of CMG Associates, a full-service marketing firm in Hamburg, N.Y.

But Election Day changed her perspective from anxiety to at least cautious optimism when House Republicans went from a 178-256 minority to a 231-203 majority (there's one independent member) and Senate Republicans gained nine seats to attain a 53-47 majority.

"I certainly hope," says Ganey, "that with the change in power, maybe [lawmakers] will wake up and say, 'Hey, we've got to do something to make it conducive for business to operate.'"

The new Congress, which will convene Jan. 4 and continue for two years, will be controlled by Republicans for the first time since 1954. And it's that control that has brightened the legislative and regulatory outlook of many business people.

"This is a group of lawmakers who are clearly interested in reducing the size of government and in trying different approaches to problems that will not penalize success. These are both concepts that business supports," says R. Bruce Josten, senior vice president of membership policy for the U.S. Chamber of Commerce.

The agendas planned by Senate and House Republicans and the post-election pronouncements from GOP leaders appear to support Josten's assertion.

Under the leadership of House Speaker

Newt Gingrich of Georgia, Republicans in the lower chamber have pledged to vote within the first 100 calendar days of the 104th Congress on issues covered in their Contract With America.

The contract, signed in September by nearly all the GOP House candidates, includes a call for an amendment to the Constitution to require a balanced federal budget and for authority for the president to veto line items in spending bills. Currently, the president can veto only whole spending measures.

The contract also calls for a middle-income tax cut, a reduction in the capital-gains tax, reform of the legal system to make it less costly and time-consuming for litigants, and the creation of a uniform product-liability law to replace the patchwork of 50 state statutes.

Other elements of the plan seek to overhaul the welfare system, to make adjustments to the Social Security system so that senior citizens can earn and keep more outside income, to toughen the crime laws, to bolster U.S. national security, and to strengthen families through such means as tax incentives for adoption, toughening enforcement of child-support laws, and a tax credit for elderly dependent care.

House lawmakers also will be asked to vote on a constitutional amendment to limit the number of terms they may serve. Seven states approved term limits for U.S. congressional offices on Election Day. Six of those seven also extended the limits to state and/or local elected lawmakers. Three other states did the same, and they also voted to change term-limit laws already in effect by reducing the number of terms their U.S. House members can serve.

Now, there are 22 states with term limits for their U.S. House and Senate

*Small business hopes that Republican control of Congress will mean more support for pro-growth policies.*

members. The Supreme Court, however, is reviewing the constitutionality of state-imposed limits on congressional lawmakers and is expected to hand down a ruling before its current term expires in June.

(To express your views on the elements in the Contract With America, see Where I Stand, Page 72.)

Although less publicized, Senate Republicans have their own contract, titled Seven More in '94, a reference to the number of seats the GOP needed to gain in the November elections to win control of the Senate. Like the House contract, it includes a balanced-budget amendment.

Other proposals would increase the income-tax exemption for children, enact tax reforms to help retired and working elderly persons, and make incremental health-care changes, such as medical-malpractice reform and reductions in government-required paperwork.

The Senate contract also calls for welfare reform, tougher crime laws, and a stronger national defense.

In addition, the Senate's new majority leader, Bob Dole of Kansas, has indicated support for some elements of the House Republicans' contract that are not included in the Senate contract, including a cut in the capital-gains tax.

**T**he major theme of the new GOP majority—and, according to post-election polling, one of the main reasons voters swept Republicans into power—seems to be a desire for reduced government interference in people's lives.

Stopping federal unfunded mandates on the public and private sectors, eliminating duplicative and outdated government regulations, and easing the burden of existing rules are some of the steps for accomplishing that goal, according to House and Senate leaders.

"If we make government less important," says Sen. Phil Gramm, R-Texas, "business is going to be able to spend less time dealing with the government and more time dealing with its customers."

Gramm, a party leader and 1996 GOP presidential aspirant, wants a commission to evaluate the overall burden of regulations on the economy, and he says he will push for "dramatic reductions" in the budgets of regulatory agencies.

Rep. William F. Goodling, R-Pa., chairman of the House Economic and Educa-



PHOTO: BRUCE MCKELL-PULSO, INC.



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**Labor committees in the Senate and the House will be headed by Sen. Nancy Landon Kassebaum of Kansas and Rep. William F. Goodling of Pennsylvania.**



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45	\$ 400	\$ 785	\$ 1,220
50	\$ 580	\$ 1,185	\$ 1,735
55	\$ 860	\$ 1,735	\$ 2,640
60	\$ 1,305	\$ 2,735	\$ 4,320
65	\$ 2,275	\$ 4,705	\$ 7,060
70	\$ 3,980	\$ 8,285	\$11,645

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## POLITICS

tional Opportunities Committee (formerly Education and Labor), wants a comprehensive review of all current programs, laws, and regulations. "If they aren't working," he says, "either reform, replace, or throw them out entirely."

But don't expect regulations to simply be eliminated, warns Murray Weidenbaum, executive director of the Center for the Study of American Business, at Washington University, in St. Louis. "What I do hope is that there will be a shift in the trend so that regulation will start slowing down rather than speeding up," he says.

Weidenbaum has published a number of studies on the effects of regulations on business, and he was chairman of the Council of Economic Advisors during President Reagan's first term.

Weidenbaum also warned about an acceleration of rule making by the Democratic-controlled executive branch. Indeed, such regulation by administrative action has been taking place over the past several months. The Department of Labor, for example, bypassed Congress and recently proposed a number of new rules on workplace safety and health.

Business will look to Congress, then, says the Chamber's Josten, to step up its oversight of federal agencies. And, with lawmakers who traditionally have championed the free-enterprise system now in control of the committees of Congress, business expects to receive a more welcome hearing on its concerns.

In the House, three of the most important committees in dealing with business issues—Ways and Means, Budget, and Economic and Educational Opportunities—will be chaired by Reps. Bill Archer of Texas, John R. Kasich of Ohio, and Goodling, respectively.

Archer has indicated that his committee, which has oversight of the Internal Revenue Service, will examine changes in the tax code that would favor families and business.

Cutting the capital-gains tax is expected to be a top priority for the panel. Archer helped push such a cut through the House in 1986 over the objections of



PHOTO: LAURENCE L. LEVIN



PHOTO: GERRIT HOERTEL—POLIG INC.

**The tax panels' chairmen, Rep. Bill Archer of Texas, top, and Sen. Bob Packwood of Oregon, are expected to consider cutting the capital-gains tax.**

Illinois Democrat Dan Rostenkowski, then chairman of the Ways and Means Committee, who was defeated for re-election.

Kasich's committee will be responsible for producing a fiscal 1996 budget (the 1995 budget took effect Oct. 1, 1994, and runs through Sept. 30) that pays for the initiatives in the Contract With America. Congressional budget rules require that tax cuts that would reduce federal revenues be offset dollar for dollar with cuts in spending or with tax increases.

Kasich also is expected to push for budget-process reforms, such as requiring the president and Congress to compare their current-year budgets with amounts actually spent in the preceding fiscal year rather than with inflation-adjusted amounts.

The current practice of using "baseline" budgets—last year's spending adjusted up for inflation—allows lawmakers to characterize changes in the current-year budget as reductions rather

than increases even when the budget would be higher than the previous year's actual spending.

The House Education and Labor Committee, now the Economic and Educational Opportunities Committee, was long a thorn in business' side because of its output of bills backed by organized labor. It is now unlikely to dictate management policy or throw up roadblocks to business, such as the family-leave or plant-closings laws, which often occurred over the past four decades.

Chairman Goodling says that, in terms of workplace policy, his panel will let "employers and employees make the decisions about what is best for them, not [allow] decisions by government mandates and regulation."

The corresponding committees in the Senate—Finance, Budget, and Labor and Human Resources—are expected to be led by Sens. Bob Packwood of Oregon, Pete V. Domenici of New Mexico, and Nancy Landon Kassebaum of Kansas.

Packwood has indicated support for a balanced-budget amendment and some tax cuts. Although a reduction in the capital-gains tax is likely to be considered by his tax panel, it faces a tougher road in the Senate, where the rules enable one member to stall legislation, than in the House.

Domenici is known as a deficit hawk, and reducing the government's red-ink spending will top his priority list as Budget Committee chairman. Like Kasich in the House, Domenici's task will be to craft a budget that balances proposed tax cuts and increased defense spending with spending reductions or increases in other taxes.

Cutting government spending, though, is expected to be the main goal of the panel, says Gramm, who serves on the Budget Committee. "Every penny we spend is a tax that is waiting to be imposed," he says. "That's why spending control is critical to lessening the tax burden."

One of Kassebaum's first actions as chairman of the Labor and Human Resources Committee is likely to be an examination of the welfare system. She has proposed letting the states take over welfare in exchange for a federal takeover of Medicaid, the health-care system for the poor, which is currently administered by the states and paid for by the federal and state governments.

Business will be looking to those committees and several

other panels in both houses to advance proposals long bottled up by Democratic chairmen or thwarted by Democratic leaders. In addition to the spending and tax issues and many of the initiatives in the Republicans' contracts, business would like to see action in 1995—and likely will—on the GOP proposals to curtail unfunded mandates that impose requirements without accompanying funds for implementation; to reform S-corporation rules to help small firms; to cut government paperwork; to ease export restrictions; and to protect private-property rights.

Business also will be counting on pro-business Democrats, such as Rep. Charles W. Stenholm of Texas and Reps. W.J. "Billy" Tauzin and James A. Hayes and Sen. J. Ben-

**The budget committees will be chaired by Sen. Pete V. Domenici of New Mexico, top, and Rep. John R. Kasich of Ohio.**



PHOTO: GERRIT HOERTEL—POLIG INC.



PHOTO: LAURENCE L. LEVIN



nett Johnston, all of Louisiana, to help advance its agenda, says the Chamber's Josten.

The 104th Congress, which features 88 freshmen House members, including 73 Republicans, and nine freshmen senators, all Republicans, may be noted as much for who is not there and for the legislation that isn't considered as for its Republican control and the proposals that are considered.

Gone are some of business's long-time nemeses, including Sens. Howard M. Metzenbaum, D-Ohio, a top labor committee member, and Donald W. Riegle Jr., D-Mich., who had been chairman of the Senate Banking Committee, as well as Majority Leader George J. Mitchell, D-Maine, all of whom retired. Sen. Harris Wofford, D-Pa., who was linked with President Clinton's government-heavy health-care-reform plan, was ousted in his re-election bid by Rep. Rick Santorum, R-Pa.

In the House, organized-labor advocate and former Education and Labor Committee Chairman William D. Ford, D-Mich., retired. In addition to Ways and Means Chairman Rostenkowski, House Speaker Thomas S. Foley, D-Wash., and Judiciary Chairman Jack Brooks, D-Texas, were among the 36 Democratic incumbents who lost on Election Day.

Business also is unlikely to have to

**"This is a group of law-makers who are clearly interested in reducing the size of government and in trying different approaches to problems that will not penalize success."**

—R. Bruce Josten,  
U.S. Chamber of Commerce

spend as much time in 1995 battling anti-business legislation, such as proposals to bar employers from permanently replacing striking workers, to require employers to offer workers certain benefits, and to grant workers and government agencies more power to set and enforce workplace safety and health rules.

The election of more than two dozen business people should help guarantee that and should ensure that business's concerns are considered.

Nonetheless, the Chamber's Josten says, business can't let its guard down. The majority party in the House has the slimmest margin over the minority party—28 seats—since Republicans controlled the body by just eight seats in 1954. In the Senate, just three GOP defections would cause a 50-50 tie that would be broken by Vice President Al Gore. And the filibuster remains a powerful tool that Senate Democrats can use to stop legislation. To break a filibuster and move a measure for a vote, 60 votes are needed.

Also, moderate Republicans in both the House and the Senate could occasionally side with Democrats to vote down legislation. Even if Congress clears a bill, President Clinton can veto it. A veto can only be overridden by a two-thirds majority in both houses of Congress.

Although the outlook is clearly brighter, says Josten, "business has to understand, nonetheless, that getting its agenda through Congress—or, sometimes, even stopping bad bills—isn't going to be a cakewalk."

The grass-roots involvement of business in the legislative process, says Josten, will continue to be essential to the advancement of the free-enterprise system.

## Small Company's New Golf Ball Flies Too Far; Could Obsolete Many Golf Courses

Pro Hits 400-Yard Tee Shots During Test Round

Want To Shoot An Eagle or Two?

By Mike Hensen

YALESVILLE, CT — A small golf company in Connecticut has created a powerful, new ball that flies like a U-2, putts with the steady roll of a cue ball and bites the green on approach shots like a dropped cat. But don't look for it on weekend TV. Long-hitting pros could make a joke out of some of golf's finest courses with it. One pro who tested the ball drove it 400 yards, reaching the green on all but the longest par-fours. Scientific tests by an independent lab using a hitting machine prove the ball out-distances major brands dramatically.

The ball's extraordinary distance comes partly from a revolutionary new dimple design that keeps the ball aloft longer. But there's also a secret change in the core that makes it rise faster off the clubhead. Another change reduces air drag. The result is a ball that gains altitude quickly, then sails like a glider. None of the changes is noticeable in the ball itself.

Despite this extraordinary performance the company has a problem. A spokesman put it this way: "In golf you need endorsements and TV publicity. This is what gets you in the pro shops and stores where 95% of all golf products are sold. Unless the pros use your ball on TV, you're virtually locked out

of these outlets. TV advertising is too expensive to buy on your own, at least for us.

"Now, you've seen how far this ball can fly. Can you imagine a pro using it on TV and eagle-ing par-fours? He would turn the course into a par-three, and real men don't play par-three's. This new fly-power forces us to sell it without relying on pros or pro-shops. One way is to sell it direct from our plant. That way we can keep the name printed on the ball a secret that only a buyer would know. There's more to golf than tournaments, you know."

The company guarantees a golfer a prompt refund if the new ball doesn't cut five to ten strokes off his or her average score. Simply return the balls—new or used—to the address below. "No one else would dare do that," boasted the company's director.

If you would like an eagle or two, here's your best chance yet. Write your name and address and "Code Name S" (the ball's R&D name) on a piece of paper and send it along with a check (or your credit card number and expiration date) to National Golf Center (Dept. S-747), 60 Church Street, Yalesville CT 06492. Or phone 800-285-3900 anytime. No P.O. boxes. One dozen "S" balls cost \$24.95, two to five dozen are only \$22.00 each, six dozen are only \$109.00. You save \$40.70 ordering six. Shipping and handling is only \$3.50 no matter how large your order. Specify white or Hi-Vision yellow.

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## FINANCE

# Are You Ready To Go Public?

By Roberta Maynard

A success story like Boston Chicken's is the stuff that dreams—and fortunes—are made of. But success in the public arena is not limited to blockbusters. In fact, some small firms may be candidates for public ownership without knowing it.

Why do companies go public? What are the advantages of tackling the arduous and expensive process of an initial public offering (IPO)? Are the gains of going public worth the loss of control and privacy?

In an IPO, shares of common stock are first offered for sale, either in an over-the-counter market or on a stock exchange. The principal benefit is the potential for increased working capital. Among the other benefits are enhanced visibility, increased market value, and improved liquidity.

A New York City manufacturer of bridal gowns found that the higher profile his company achieved after it went public helped attract top talent. Jim Hjelm's Private Collection, Ltd., which went public as a start-up in 1987 with a single line of upscale creations, has since added four more lines and hired a second designer. The initial sale of \$1 million worth of stock laid the groundwork for growth.

"We felt that the market was very hot and interested in new issues," says Joseph L. Murphy, the company's president. "It seemed like a good way to raise money quickly without having to depend on a few financial backers." In 1994, the company had revenues of \$7.5 million and earnings of about 12 cents per share.

Determining which companies are likely candidates for going public is made by underwriters, or investment bankers, who market stock and manage IPO transactions. Some look for "sex and numbers," a hot idea likely to send the stock skyrocketing. These underwriters specialize in more-speculative deals or emerging companies with long-term potential, such as DynaGen, Inc., a biotech company in Cambridge, Mass. DynaGen has no profits, scant revenues, and a product that cannot be marketed yet. But



PHOTO: SHAWNE BOWNE

When markets were hot for new stock issues and upscale products, designer Jim Hjelm, seated, of Jim Hjelm's Private Collection, Ltd., and Joseph L. Murphy, president, saw an opportunity for the firm to enter the public arena.

it hopes to have a winner in NicErase, a smoking-cessation drug it developed.

Knowing that it would take several years to get U.S. Food and Drug Administration approval of NicErase, the company opted to go public to raise capital needed for research and development. In three stock offerings and two equity sales to private investors, it has generated \$23 million.

At the other end of the spectrum are established companies that have demonstrated solid, sustained growth. These are also IPO candidates. Underwriters attracted by such companies look for these characteristics:

- A strong earnings record.
- Three to five years of audited financial reports.
- Growing markets.
- Solid management, including a strong board of directors.

"The two most important qualities we look for are quality and integrity of management and a track record of three years of steadily increasing sales and earnings," says Barbara Boyle, a vice

*Moving a firm from private to public ownership can increase working capital and bring additional benefits. Here's how it's done.*

president of A.G. Edwards & Sons, Inc., an investment banking firm in St. Louis.

Above all, underwriters are interested in companies with a story to tell, such as that of the Blue Whale Moving Co., Inc., in Austin, Texas. Blue Whale's story is simple and easily marketed: The company provides exceptional service. Its success brought it national publicity and business awards, including designation as a 1993 honoree in the Blue Chip Enterprise Initiative program for small businesses, sponsored by the Connecticut Mutual Life Insurance Co., the U.S. Chamber of Commerce, and *Nation's Business*.

Though the company is small—68 employees and revenues of \$2.1 million—underwriters were attracted by its story and by its 50 percent annual growth since it was established six years ago. Underwriters began beating a path to Blue Whale's door. For a time, the company was getting a dozen calls a day from people wanting to invest.

In that regard, though, Blue Whale's experience is an exception: Usually it is



the small firm that must seek out advisers, not the other way around. In addition to an underwriter, a firm planning to go public needs a securities attorney, an accountant, and a financial printer, who prints the documents to register the offering with the Securities and Exchange Commission (SEC).

The accountant should be brought in at least a few years in advance to lay the financial groundwork for the IPO. "The most common accounting problem of companies wanting to go public is that their accounting records are not in good enough shape to pull from them two to three years of audits," says Les Thomas, a CPA and a partner in the Costa Mesa, Calif., office of the Price Waterhouse accounting firm.

Small firms trying to save money typically structure their accounting to minimize their profits and ultimately their taxes. But a company planning to go public, experts say, must do just the opposite with profits: It must show potential investors a strong record of profit growth in the years just preceding the IPO.

Though the accountant is important, the cornerstone of the IPO process is the underwriter, who manages the deal and provides expertise on valuation and pricing of the stock, on market and industry conditions, and on the timing of the offering. The underwriter also provides support for the stock after it is issued.

In return, the underwriter receives a commission of about 7 to 10 percent of the proceeds and may ask for the right to underwrite future offerings or for other compensation, such as warrants to purchase stock.

Usually, the underwriter agrees to buy all of the stock at a fixed price to resell it to the public. A riskier venture might be handled on a "best-efforts" basis, in which the underwriter agrees to sell the stock to investors but is not obligated to purchase it.

The conditions of a transaction are set forth initially in a nonbinding letter of intent and later in the underwriting agreement, a binding contract between the company and the underwriter, which is usually signed within a day of the expected date of the offering.

**A**lthough the size of its offering can limit a small firm in choosing an underwriter, the company should seek one who has experience in the firm's industry, who understands the business, who will provide after-sale support, and who is known and reputable.

An underwriter should not be chosen on the basis of the suggested price of the stock, say experts, because that price is likely to change. Although the price per share is tied to the amount of money to be raised, the underwriter has to balance the demands of the owners, who want the highest price, and those of the investors,

who want the lowest price. The underwriter also has to consider the company's performance after the public offering and thus wants to set a price low enough for the stock to increase in value and demonstrate good performance.

The price per share of common stock in an IPO is generally \$11 to \$14 but can vary considerably. It's an indication that the pricing is appropriate, says underwriter Boyle, if the offering attracts both individual and institutional investors.

How a firm's stock will be traded

for new offerings generally (see the chart on Page 32) and the market window of the particular industry sector. A market window widens as IPOs' volume increases.

One reason that experts advise companies to start the IPO process long before the expected date of going public is so they can act quickly if the market suddenly becomes more favorable—or if it appears that an existing opportunity will soon fade.

In the early 1990s, investors were almost euphoric about investing in biotech companies. That enthusiasm allowed



PHOTO: BOB DAWBACH

**Sparkling customer service** at the Blue Whale Moving Co., demonstrated here by Brad Armstrong, chairman, left, and Blake Miller, president, attracted potential investors.

depends on the type and size of the offering. Small companies' offerings nearly always start as over-the-counter stocks, traded through the Nasdaq Stock Market or the American Stock Exchange's Emerging Company Market-place. Securities of larger, well-known companies are listed on the American Stock Exchange or the New York Stock Exchange, which have more-stringent listing requirements.

During the final leg of the IPO process—lasting 60 to 120 days, depending on the amount of preparation required—work begins on the SEC registration. The key registration document describes the company and the offering, and it discloses information about the risks. It is also used as the preliminary prospectus for potential investors during the "quiet period," when promotion of the firm is subject to SEC restraints.

Every decision relating to going public hinges on whether the timing is right in the market. The timing depends on the status of two market windows: the IPO window, which reflects investors' appetite

more biotech to go public and to enjoy a strong performance. "Every day, companies could raise \$25 [million] to \$30 million for very risky deals," says DynaGen's co-founder and chairman of the board, Jay Wadekar, whose biotech company went public in 1990. "The market was very receptive then. In today's market, it would be very difficult for us to go public." Indeed, in 1992, biotech companies made up 14 percent of all IPOs; in 1994, they accounted for only 2.9 percent.

Along with being a hedge against marketplace vagaries, advance preparation helps deal with other potential surprises. Just weeks before its offering date, DynaGen suddenly found itself facing SEC troubles it hadn't anticipated, which resulted in a three-month delay in the offering. A significant market drop during that period cost the company dearly when the stock finally was issued, but the offering did go through.

"Underwriters want to be ready to go," says accountant Les Thomas. "They don't want any weak link in the chain that could result in delays at the last minute and



wreak havoc with a carefully timed entry into the market."

The years 1991, 1992, and 1993 saw record listings for IPOs, with 626 new issues in 1993 alone. In 1990, by comparison, there were only 136 new issues. Today's IPO market is mixed, which means lower IPO volume and less profitable stock performance.

"A lot of deals are getting done," says underwriter Boyle, "but many are priced lower, and the earnings are not as high." Of the 406 issues offered in the first nine months of 1994, 145 were offered below the proposed price, while just 43 were priced above. Though the underwriter suggests a price range, ultimately the price is determined by the market.

Whether this is a bad or a good time to go public depends on the company and the industry. Marginal offerings do not do as well in a choppy market, Boyle says, but "there is always room for quality deals." For example, in 1993, even though the restaurant industry was taking a beating, Boston Chicken, based in Golden, Colo., went public with an initial offering at \$20 a share but exploded onto the market at \$48 a share. The company has since tripled its outlets to 525 in 28 states.

**G**oing public is not for every company, of course. Although the Blue Whale Moving Co. was courted by underwriters, the company ultimately decided not to go public. Instead, the owners chose franchising as the way to finance a \$10 million expansion into 100 locations. Talking with investment bankers, though, helped Blake Miller, president, and Brad Armstrong, chairman, decide the company's future.

"I got to look at it from a banker's viewpoint—an unemotional numbers game," says Armstrong. "It got pretty scary looking at how much ownership we would have to give up. It's still too much of our child to run the risk of losing it," he says of the six-year-old firm.

Moreover, Armstrong says that he and Miller weren't sure that going public would help them achieve their vision. "Franchising gave us the local ownership we felt we needed to maintain our high standard of service," he says. "It will allow us to grow more slowly and spend more time training, and we like that."

Other capital-generating alternatives for small firms include venture capital, institutional investors, private place-

## IPO Activity

Quarterly changes in the number of companies going public show market volatility.



SOURCES: "GOING PUBLIC—THE IPO REPORTS," AND SECURITIES DATA CO.

ments (securities that are issued to private entities and are not offered to the public), and commercial bank loans.

John Stollenwerk, president and owner of Allen-Edmonds Shoe Corp., in Port Washington, Wis., considered going public after buying the upscale shoe company in 1978. The company was losing about \$100,000 a month. Stollenwerk wanted to retire some debt, give the owners greater liquidity, and provide working capital to expand, especially overseas. He decided against going public.

## Resources

*The Going Public Handbook* is a free, 104-page book that details the process of the initial public offering and provides practical advice. To order, write to Douglas D. Calvin, Price Waterhouse, Middle-Market and Growing Companies Group, 1251 Avenue of the Americas, New York, N.Y. 10020, or call your nearest Price Waterhouse office.

*Going Public* is a 97-page book published by the National Association of Securities Dealers, Inc., which operates the Nasdaq securities market. To order the \$30 publication, call (301) 590-6578.

*Going Public: Everything You Need To Know To Successfully Turn a Private Enterprise into a Publicly Trade Company*, a 400-page book by Frederick D. Lippman, can be purchased in bookstores or by calling Prima Publishing at (916) 632-4444. The price is \$24.95.

To receive materials about offerings and filing requirements on the American Stock Exchange, Inc., call 1-800-875-1247.

For further help, contact an underwriter or an investment banker.

"The down side was the need for a stunning performance every quarter and every year and being under the scrutiny of financial people who have very little understanding of your company," says Stollenwerk. "I think it would take away some of the freedom I have to operate and to invest in the business. I'm free now to provide incentives to people at the company. If we were public, I would feel obliged to guard assets very carefully for shareholders." Instead, he pursued bank financing. Company revenues have risen to \$55 million from \$10 million in 1978.

Indeed, the prospect of public scrutiny and inevitable loss of control over the business are most often cited as the reasons why CEOs chose not to pursue a public offering, according to a Coopers & Lybrand study last year of 386 fast-growing small businesses.

Cost is another deterrent. A small, straightforward offering of \$5 million to \$10 million could cost \$300,000 to \$500,000, according to accountant Les Thomas, although the amount is netted against the proceeds. DynaGen's three rounds of public offerings and two private placements generated \$23 million. Expenses came to 21 percent of the proceeds, or nearly \$5 million.

As a rule of thumb, the cost of professional advisers runs about 10 percent of the offering, says Thomas. Of this, about 7 percent goes to the underwriter, and the remaining 3 percent pays legal, accounting, printing, and filing fees.

The cost is affected more by the complexity of the deal than by the size of the offering. More-complicated offerings might include unusual equity issues or unresolved legal issues, such as ongoing contracts or a divorce action involving owners.

A major factor affecting the cost of an IPO can be a company's own lack of preparedness or its failure to reveal to advisers potentially troublesome details. Last-minute changes in the prospectus or other printed materials can drive costs through the roof.

"An IPO always takes longer and costs more than you thought it would," says Thomas. "It's a long, tough process." But for some firms—at the right time and for the right reasons—it can be well worth the effort.

To order a reprint of this story, see Page 74.  
For a fax copy, see Page 36.



# FUTURE FAX

## Try This New Information Delivery System, RIGHT NOW

**Y**ou're talking with your customer, answering questions and describing your products. He wants to see some printed information. You scribble his name and address on an envelope, and put a brochure in the mail. A few days later, you remember the client, tumble for the address and your tickler file reminds you to call back and follow up.

"What do you think of my products? Did you get my brochure?" "No."

He never got it. It got lost in the mail, it came to the wrong office. He thought it was junk mail and trashed it. Maybe you forgot to send it. It doesn't matter what excuse you use, the fact is that you lost a sale. In the age of fax and e-mail, you might as well use courier pigeons as the post office. Yet mailing printed material is business as usual for most business owners.

What about fax technology? If the client asks for printed information, you take his fax number, drop papers in the fax hopper, and he gets your material right away. That's better, but it's still old-fashioned.

There is a smarter way to get information to prospects. Consider this: You give your client your special phone number. The system asks what information he wants and requests his fax number. He keys in his fax number and hangs up. A few seconds later the prospect gets your printed information along with a menu of additional options. The menu can say "Extension 101 is a product price list. Extension 102 has information on our financing plan. Extension 103 is the specifications on our deluxe model." The customer then calls back for more details Right Now. Your customers can get the information they want, right now, right in their fax machine, or the fax machine of their boss. And it happens NOW. That's how MarketFax delivers information.

### A New Technology

MarketFax is a new technology from Alternative Technology Corporation, Hastings-on-Hudson, N.Y. It combines new computer technology with voice cards, fax boards, and easy to use software to create a whole new type of information system. It's a better way to deliver information. It is instantaneous. It responds to the client when they are interested. It gives your clients exactly what you want them to see. It's an entirely new service and it can work for you. It's easy for your clients to use, and changes how you get information into the hands of people who want it.

To compete in today's rapidly changing global markets, savvy business owners use new technology to improve channels with clients.

Here's an example: The Boston Computer Exchange, took all the documents they normally mailed to their clients and put them into the MarketFax system. They have price sheets, news items, hot products, policy statements, listings forms, nine-year price comparisons, order forms, and everything else. It's all available to any client anywhere in the world who has a fax machine. Americas Trading Company in New York uses MarketFax to list auctions and inventory liquidations in a timely fashion. Everything they have in writing is available to all clients; anytime; to any fax machine.

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# Smoothing The Ride For Business Fleets

By Julie Candler

**T**ruck driver Robert Hudson was hauling perishable foods to Chicago one Sunday afternoon when his tractor-trailer rig broke down in the heart of Iowa, in the town of Malcom, where he knew no one.

He knew a phone number, though, and within an hour of his call, a mechanic from a nearby town arrived to begin repairs. The mechanic was able to remove a broken universal joint and a burned-out front-axle bearing.

The nearest replacement-parts wholesaler was 80 miles away, in Des Moines, but the mechanic was on the doorstep when the store opened at 8 the next morning, and he had the driver on the road by noon. The refrigerated cargo was delivered on time.

Such a quick fix was accomplished because Hudson's company, Southern Cartage, of Bryan, Texas, had earlier signed up with the Truck Repair Network, a nationwide network of repair facilities that have been checked for reliability, price, and ethical practices. The network specializes in rescuing stranded owner-operators or employee drivers.

The Truck Repair Network, based in Tigard, Ore., is an example of the wide variety of services available for companies operating fleets of cars or trucks. This report looks at some of those services: fleet maintenance and repair arrangements, universal fuel-charge cards, and pre-employment testing.

## Fleet Maintenance And Repair

Fleet managers needing help with maintenance and repair have an array of choices. Some services, like the Truck Repair Network, arrange for emergency repairs. Other services see that body work is done in the event of a collision and assume responsibility for a fleet's maintenance. And some of these go as far as tracking a vehicle through its useful life by monitoring costs.

There is no fee for enrolling in the Truck Repair Network. Instead, for each

service call, users pay \$25, which the participating repair facility adds to the truck owner's bill for parts and labor.

A customer can register when a truck breaks down, but Denny Devlin, the Truck Repair Network's president, says that by registering in advance of trouble a company can give special instructions on how it wants repairs handled.

A stranded driver who calls the network's toll-free number (1-800-HELP-RIG, or 1-800-435-7744) can be connected

*A variety of services are available for managers who need help with administration of their company cars and trucks.*

expenses. Providers of such services typically field accident reports 24 hours a day, use independent damage appraisers, and work with an extensive network of repair shops. They may even obtain rental vehicles to replace damaged cars and trucks temporarily.

The services also collect repair costs from other parties when appropriate, and they can arrange to have a vehicle scrapped if it is a total loss.

Monthly reports to customers show the



PHOTO: JEROME CRANE

**A participant** in the Truck Repair Network, Steve Robison, owner of S&R Road Service, performs repairs for independent truck driver Bill Jensen in Oregon.

by phone to the nearest participating mechanic. After talking to the driver, the mechanic can be en route in minutes. The company strives for one-hour response.

"We have used the Truck Repair Network for more than a year, for at least 50 breakdowns," says Curt Agan, operations manager for the 26-truck fleet at Babbitt Transportation Service, Inc., located in Denver. "TRN will tell me what the repair is going to cost and ask if I want to go ahead. When I OK it, they get out and get the truck going."

Collision-management programs are designed to reduce the time a vehicle involved in an accident is out of service. Another goal is to control administrative

vehicles and drivers involved in accidents and the costs of repairs. The companies are often paid for their services by the repair facilities.

Among the companies offering both fleet maintenance and collision management are Consolidated Service Corp., based in Elk Grove, Ill., and Salex Fleet Specialist Corp., in Hauppauge, N.Y.

Consolidated, which administers the servicing of more than 250,000 fleet vehicles nationwide, is one of the largest maintenance providers for cars and light trucks. Customers are made up of fleet operators of all sizes.

The service passes along national fleet discount prices based on economies of



scale. The discounts apply to tires, batteries, and other parts and services.

Fleets participating in Consolidated's maintenance programs have access to a 24-hour hot line and pay no fees for the service. A network of 3,000 glass shops handles window repairs. As part of preventive maintenance, a coupon book reminds drivers to have routine services done. The coupons note the mileage the fleet's management has specified for each preventive-maintenance service.

Consolidated also offers national credit cards that drivers can use—within limits—to pay for maintenance.

One customer, National Starch and Chemical Co., in Bridgewater, N.J., has had Consolidated handle its maintenance and repairs for more than 20 years. Tom Barrett, travel and fleet manager for the producer of food starches and specialty adhesives, says Consolidated helps him save time and money. By reviewing monthly maintenance bills from Consolidated, he can monitor costs for the fleet's 450 cars. "I can see that an employee is not billing us for putting new wipers on his wife's car," Barrett says.

Consolidated also offers "self-control" software, designed to help fleet managers track and control the acquisition, use, maintenance, and disposal of their vehicles. The program highlights major operating deficiencies, such as substandard fuel economy, abnormal costs per mile, or evidence of vehicle abuse. The onetime charge for the program ranges from \$3,500 to \$6,950, depending on the capabilities the company chooses. Access to a technical hot line is available for an added monthly fee.

Another big company, Salex Fleet Specialist, also handles administration of maintenance and mechanical and body repairs. Its programs cover more than 200,000 commercial fleet vehicles. Economies of scale allow Salex members to buy parts at reduced rates.

For small fleets, a company pays Salex \$4.25 per car per month. Collision management can be added for \$1 per car per month. Both plans include monthly reporting of costs.

Members can report a nighttime accident or breakdown by calling Salex's 800 number at any time. Callers talk to a person, not a phone-answering system. The person who takes the information makes sure the disabled vehicle is secured for the night and transferred the next morning to one of Salex's 30,000 participating garages.

In a joint venture with Salex, Runzheimer, a Rochester, Wis., transportation consulting company, offers the vehicle-maintenance and collision-management service to individual business drivers for \$29.95 a year. The cost without the Runzheimer discount is \$39.95 a year.

Also bidding to help businesses operate

fleets are companies that lease. One such company is PHH Vehicle Management Services, a major leasing company in Hunt Valley, Md. PHH offers a national service card as part of its Vehicle Maintenance Assistance (VMA+) program for cars and light trucks and its Scheduled Maintenance program for medium and heavy trucks. The VMA+ service is designed to arrange for repair and to negotiate bills as necessary. Volume of business allows PHH to arrange discounts of about 14 percent on maintenance work.

The VMA+ service's cost, which varies depending on fleet size, is usually about \$5 per month per vehicle. The Scheduled Maintenance service costs about \$15 per month per vehicle.

#### Universal Fuel Cards

Several service companies offer universal fuel cards, which enable a fleet's drivers

Each month, Wright Express gives its clients reports that list each vehicle's gas mileage and fuel cost per mile. "If a transaction looks fishy, it will be listed as an exception on the report to the fleet manager," says Matthew Hoffner, Wright Express' vice president for sales.

The WEX card costs \$2 per month per vehicle; there are no volume discounts. Reports are typically provided on paper, but customers can also receive reports on computer disks or through electronic data interchange at no extra cost.

"Our gas bills went down when we got the WEX card because it eliminated pilfering," says Bruce Beane, fleet manager for Tri-City Electrical Contractors, Inc., in Altamonte Springs, Fla. "We looked at two identical trucks and found one getting 6 miles per gallon and another getting 12." With Tri-City's gasoline bills averaging \$30,000 a month for 250 cars and trucks, a universal fuel card saves



(PHOTO: SAATCHI & SAATCHI)

**A WEX card helps Michigan-based Televista track fuel costs for its "Dinosaur" earth mover. At the controls is Matt Hamilton; laying cable is Fred Meadows.**

to charge any of a number of brands when refueling, and they also help fleet managers control fuel expenses.

One such system is offered by Wright Express of Portland, Maine. The company says its universal fuel card—the WEX card—can be used to charge purchases at nearly 92,000 fueling and service centers nationwide. Among oil companies that accept the WEX card are Clark, Exxon, Mobil, Shell, Sunoco, and Total.

A WEX card can be inserted in unattended, self-service pumps. To confirm that the charges billed to a company are accrued by an employee, the driver enters a personal identification number and the vehicle's odometer reading. A vehicle number is encoded in the card.

Beane time. "It takes me about an hour to critique the gas bills," he says. "It used to take a day and a half."

About a year ago, Televista Communication, a small cable company in New Boston, Mich., gave its 10 drivers Wright Express cards in place of an oil company's single-brand cards. "Now our drivers use less gas and are more productive because they don't have to drive around looking for a station authorized for use by our fleet," says Darlene Ereaux, the company's office manager, who oversees its trucks. Televista installs and services cable systems over a wide, sparsely populated area near Detroit.

"Before we got the WEX cards, our drivers couldn't always find a station that



## TRANSPORTATION

handled our brand, so they bought gas at other stations," Ereaux says. "Every month, we had to sort out paper receipts from a variety of places. They weren't always signed, so we didn't know if they were for our vehicles, but we paid them to keep the peace. The fuel-card system saves us money because it makes things so much easier," Ereaux says the monthly reports from Wright Express help Televista know when it's time for preventive maintenance.

Televista even has a WEX gas card for the company's "Dinosaur," a construction vehicle that buries cable at work sites. With its own card, the Dinosaur engine's fuel consumption can't be mistakenly attributed to another vehicle.

The largest of the fueling networks is one operated by PHH Vehicle Management Services, the Maryland leasing company, with 116,763 participating stations. It includes 3,300 diesel fueling stations for long-haul carriers.

The motor-carrier users can save 2 to 3 cents per gallon by using the fuel card and paying a transaction fee of \$1.50 to \$4, depending on volume. Or companies can choose a credit system in which they pay the regular price at the pump but no transaction fee. Instead, PHH collects a fee from the supplier based on a percent-

**"It takes me about an hour to critique the gas bills. It used to take a day and a half."**

—Bruce Beane,  
Tri-City Electrical Contractors,  
WEX fuel card user

age of the sale, about 4 percent.

Electronic point-of-sale capabilities are available at a growing number of PHH's fueling stations.

Other suppliers of universal fuel cards include International Automated Energy Systems, Inc., of Naples, Fla., and GAS-CARD, of Carlsbad, Calif. Fleet fuel cards are also available from major oil and leasing companies.

#### Pre-employment Testing

For fleet managers who have concerns about hiring qualified drivers, Schieg Associates, Inc., in Gig Harbor, Wash., offers 45-minute pre-employment tests. "They aren't based on psychologists' recommendations about character traits but on more than 400 job elements, ranked

top to bottom," says Sam Chapin, senior principal with Schieg. His firm develops tests by working directly with employees identified as superior performers.

One company, System TWT, a freight-hauling company in Spokane, Wash., evaluated the test before using it as a hiring tool by measuring the performance of drivers whose scores were above and below the standard set by Schieg.

System TWT found that drivers who scored below the standard had 2½ times as many trips in which there was an accident, an incident (minor damage not involving another vehicle), or damaged cargo, as those who scored above the standard. The low scorers also had three times as many late deliveries, according to the company.

For a \$20 charge, a company can be entered into the Schieg data base. Thereafter, Schieg charges \$20 for each copy of the test. The charge covers the scoring and evaluation, usually sent via fax within 30 minutes.

Missy Warland, operations supervisor at the Schodack, N.Y., distribution center of Hannaford Brothers, a food retailer based in South Portland, Maine, uses the Schieg test before hiring short-haul drivers. "The test works very well," she says.

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## WORKPLACE

# A Low-Stress OSHA Review

By Laura M. Litvan

It's no surprise that many small-business managers dread the prospect of a visit from federal workplace-safety inspectors. For a small company operating with limited resources, staying on top of complex safety regulations is sometimes a struggle.

But at the Alta Group, a titanium refiner in Fombell, Pa., managers invite the U.S. Occupational Safety and Health Administration to visit once a year. "We'd probably have them down once a week if we could," says Edward De Maillo, project manager with the 75-employee company.

The Alta Group over the years has forged a partnership with OSHA that has helped the company fashion a comprehensive safety program. The cooperation stems from a program called the OSHA Consultation Service; it is independent of the agency's enforcement branch.

The service provides free workplace safety reviews for small businesses—usually those with 250 or fewer employees at a work site. There are no penalties for any violations discovered during the review if the company corrects the infractions in an agreed-upon time. Firms that excel under the program are exempt from random OSHA enforcement audits.

The OSHA consultations began in 1975—five years after the Occupational Safety and Health Act took effect—in response to a small-business outcry over complicated workplace safety rules. So far, more than 397,000 consultation visits have been made. The site visits are typically administered by state labor departments.

The Alta Group's experience illustrates how the program can boost safety dramatically—and sometimes inexpensively.

The company provides high-grade titanium for computer components, and employees face a number of potential hazards. They use sulfuric acid to purify titanium, and then they melt refined titanium into ingots. Heavy machines pound the ingots into plates, discs, and other forms. Ultimately, employees do plenty of heavy lifting and work with or near electrical equipment and machinery that can pose dangers.

In 1991, when the Alta Group had only 20 workers, it reported 12 workplace injuries to the U.S. Labor Department. Managers believed the firm's injury records suggested that more needed to be done to protect employees. For example,



PHOTO: GREGORY GILBERT

Alta refinery worker Rich Conley wears safety glasses and protective shoes.

employees were attending safety meetings once a month, thus receiving only 10 to 12 hours of safety training apiece over the course of a year, De Maillo says.

Two consultants were sent over from nearby Indiana University of Pennsylvania, through which the state administers the consultation service visits. On their first visit, the consultants identified numerous potential hazards, some of which were easy for the company to correct.

For example, fire extinguishers clustered in particular areas needed to be distributed more widely. Also, some wires in electrical boxes were exposed. "That was something simple and easy to correct, but it could have exposed someone to serious injury," says Linda Trahey, Alta's environmental and safety director.

In recent years, Alta has received an annual review, as well as quarterly visits from Indiana University interns. As a result of the program, the safeguards on

*A voluntary program helps small companies spot and correct safety hazards without associated fines.*

Alta's machines have been improved and there is more protective gear. Safety training has been expanded to about 100 hours a year for each employee.

The company is working to comply with requirements for labeling all hazardous materials brought on site—a challenge for a small manufacturer that constantly receives boxes of materials.

Whenever OSHA consultants uncover problems that pose substantial risks to workers, Alta's managers work with the consultants on a timetable for achieving remedies, typically two or three months, Trahey says. Ultimately, the company benefits because it can spend money on improvements instead of fines. The company has also qualified for an exemption from random OSHA inspections.

De Maillo says he and other managers are encouraged about the impact they and employees can have on workplace safety. The company also has seen a slowing of increases in its workers' compensation costs, and its recordable workplace injuries dropped to five in 1994 even though its work force had grown to 75.

Nationally, the program is growing in popularity. Recently, more than 3,500 site visits were pending, and the average wait for a visit was one to two months, says Joe Collier, the program's director at OSHA.

Consultants generally choose to work first with companies in industries that have higher rates of injuries. And the program tends to turn away employers with 250 or more workers at one site or 500 or more workers overall, Collier says.

Findings during the consultations remain confidential except when serious safety violations are found and the company fails to correct them under deadlines agreed to by managers. Also, a company that is granted an OSHA enforcement exemption can be audited by inspectors only if the company experiences a workplace fatality or if an employee reports concerns about hazards.

Enforcement actions against program participants are rare indeed. In 1993, for instance, the program logged about 23,000 visits and referred violations involving only 11 employers to enforcers, according to OSHA records.

Collier says any small business interested in the program should contact its state's labor department.



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## RETAILING

# Simply Irresistible

*An effective store layout can be instrumental in persuading customers to stay longer and spend more.*

By Janet L. Willen

**T**he layout at McKay's Bakery in Abilene, Texas, emphasizes visibility. "You see everything three times," says co-owner Dianne Green, "when you come in, while sitting, and when you leave. Dessert items are tempting customers all the time."

By making customers walk past expensive pies and decorated cakes to get to inexpensive muffins and day-old bread, Green is following the principles of good store layout.

According to Barton A. Weitz, director of the Center for Retailing Education and Research at the University of Florida in Gainesville, a store layout should do these three things:

## Stimulate Impulse Purchases

One way retailers use layouts to entice customers to buy more than they intended is to draw them through the store so they'll see as many of the products as possible.

"You want to move people through the store," says Stephen F. Hill, owner of the Hill Design Group, the Roswell, Ga., firm that designed McKay's Bakery.

Jewelry stores put their better products toward the back of the store to pull people in, he says, and supermarkets tend to put popular departments—produce, meat, bakery, deli—along the perimeter.

At Gatto's Cycle Shop, in Tarentum, Pa., customers at the store's '50s-style diner are tempted by more than burgers and sodas. To enter or leave the restaurant, patrons must pass motorcycles, bicycles, JetSkis, clothing, and accessories, says the owner, George Gatto.

Successful retailers also stimulate customers to spend by placing small items near the cash register. A hardware store



PHOTO: GIL LANG-BLACK STAR

The design of McKay's Bakery, in Abilene, Texas, emphasizes profitable items.

might use such a location to display batteries; a clothing store might similarly display pins, belts, or scarves.

## Make It Easy To Find Goods

"You can tell if there's a problem if people aren't seeing the product they want," Gatto says. "Concentrate on how they like to move around and shop."

Gatto's Cycle Shop is divided into separate showrooms by product categories, such as kids' bicycles or Harley-Davidsons. But displays also highlight products from other areas.

Retailers often have to make a trade-off, Weitz says. For example, it's more convenient for supermarket customers if a deli is at the front of the store, he says, but some markets place it in the rear to stimulate sales. The ideal, according to Weitz, is "try to stimulate multiple-item sales without making it difficult."

## Create An Image Or A Feeling

"From the front door, you want to say what kind of store it is, what the product is, and what the price is," says Mark Bradin, of the Walker Group/CNI, a New York retail-design consulting firm.

Image was in Gil Klein's mind in the '70s when he designed Gil Klein TV & Appliance, in Fairview Heights, Ill. Klein put the service department in a prominent location to the left of the entrance "to put the customers at ease," he says.

McKay's Bakery uses light fixtures from the '20s, wood floors, and pink walls to create a warm feeling, says Green, the co-owner. Vents carry the smell of fresh-baked goods from the kitchen.

Green implemented the layout in October 1993 and credits it with the store's doubled sales rate in 1994.

**D**esign fees range roughly from \$4.50 to \$6.50 per square foot, depending on the scope of work and detail, says Steven Hill, Green's designer. Calculations may also be based on a percentage of the construction cost (typically 7 to 12 percent).

Another approach is the flat fee, says Robert Ceretti, president of the Institute of Store Planners, in Tarrytown, N.Y., and of R. Ceretti Associates of New York. Owners of small start-up stores may pay more for more on-site supervision than experienced retailers want.

But not everyone needs an expert. "By simple trial and error," Bradin says, "retailers can arrive at a good plan." ■

## For More Information

For more on store layouts, consult:

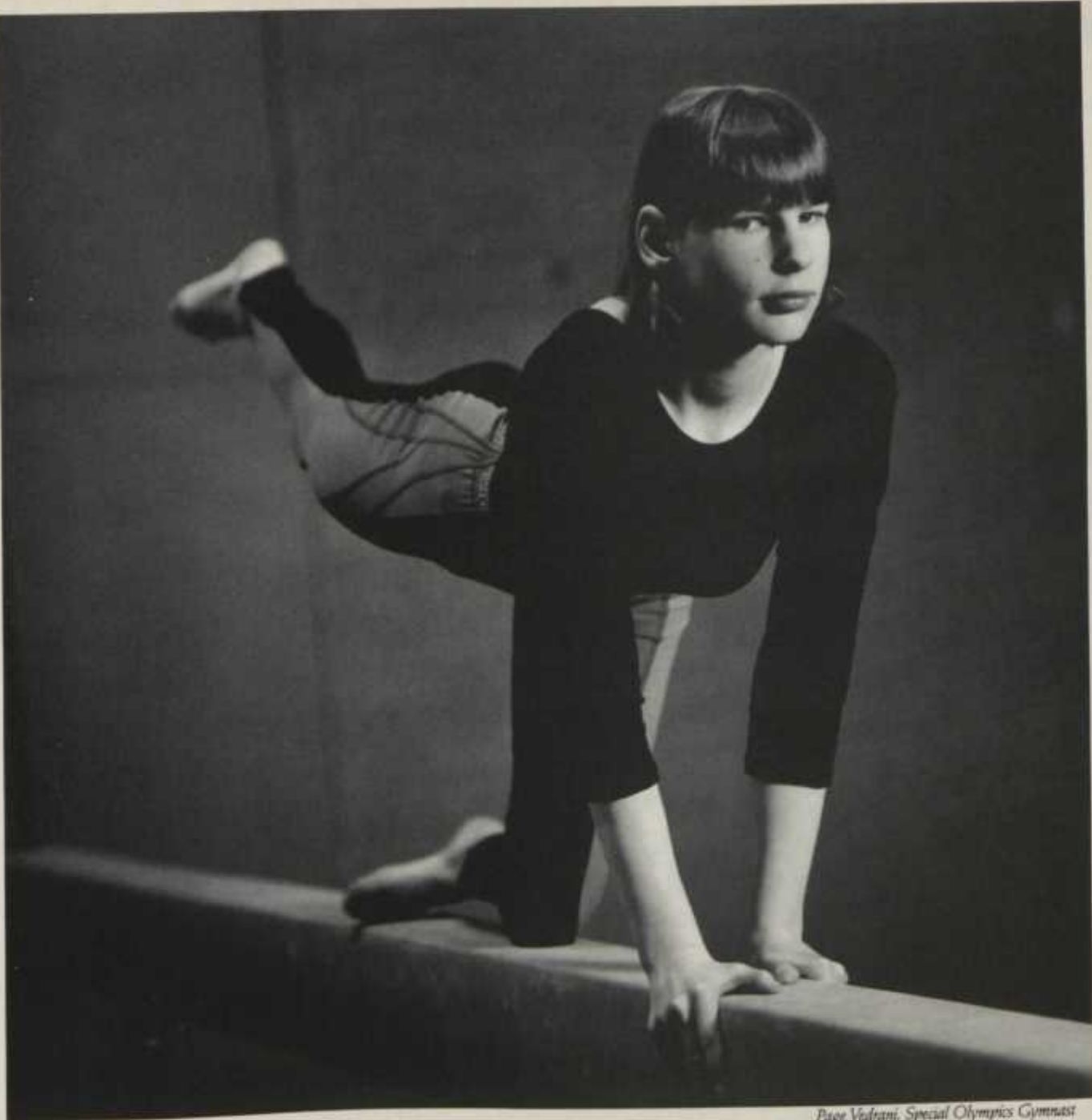
■ **Institute of Store Planners**, 25 N. Broadway, Tarrytown, N.Y. 10591; (914) 332-1806. It publishes a free directory that describes its 80 member firms.

■ **Visual Merchandising and Store Design**. This monthly magazine costs \$39 per

year. Order from S.T. Publications, Inc., 407 Gilbert Ave., Cincinnati, Ohio 45202; (513) 421-2050.

■ **Store Planning/Design: History, Theory, Process**, by Lawrence J. Israel, chairman emeritus of the Walker Group/CNI. This book on the history, theory, and practice of retail store design focuses on large stores, but much is applicable to small retailers. Cost: \$39.95. Order from John Wiley & Sons, 1-800-CALL WILEY, or 1-800-225-5945.





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## MANAGING

# The Changing Face Of Leadership

By Michael Barrier

In a small-business context, to speak of "leadership" can seem almost redundant because so many small-business owners identify so closely with their businesses. What can "leadership" mean when there is no one to lead, except maybe a few family members and a handful of employees who work so closely with you that they can almost read your mind?

As your business grows larger, though, things can start to get messy.

Growth usually brings more employees, who may see you seldom. If you remain self-contained and self-propelled, the risk of failure will rise, because so many of your wishes must now be carried out by people one or more reporting levels removed from you.

The traditional entrepreneurial response to this situation could be summed up this way: "Do it my way, or else!" In a great many small businesses, that attitude still prevails—but it is beginning to fade. "The old style of management, which would rule with fear and intimidation, is over," says Stuart R. Levine, chief executive of Dale Carnegie & Associates, Inc., the training company, based in Garden City, N.Y.

Today, Levine says, a leader should be defined not as someone who rules "with a bullwhip and a chair," but as "a person who can communicate and motivate." The co-author with Michael A. Crom of *The Leader in You* (Simon & Schuster), Levine will speak on leadership May 2 in one of the two-hour satellite seminars produced by the Quality Learning Services division of the U.S. Chamber of Commerce.

Many small-business owners have come to realize that the traditional leadership style is not simply arbitrary and disagreeable; it can also be dangerous to the company's survival. The boss who insists that orders be obeyed without question, and who suppresses any feedback from subordinates, can easily lead the organization over a cliff—because that boss may not have a clue about what's really going on.

The importance of feedback, San Diego psychologist John Eggers suggests, lies in this observation: "When we interpret human behavior, we're wrong 50 to 70 percent of the time." A lack of open communication between boss and employee thus can mean that both parties are misreading each other, with possibly lethal consequences for the business.

The challenge for the owner of a successful, growing small business, then, is to marshal leadership skills that have become critically important as the business has grown—even though those skills may have been of little consequence a few years or even months before, when the business was much smaller.

For many small businesses in their early stages, the leader's financial skills are far more important than leadership skills as they're usually defined. Likewise, the fledgling business owner cannot worry too much about motivating the employees (if there are any); the important thing is the business owner's own

*Leading effectively can mean realizing that your small business is no longer synonymous with yourself.*

motivation. It's when a company is on its feet and growing that the other skills move to the top of the list.

To complicate matters, the need for those skills may not be readily apparent. Now that the business is established, its immediate survival is probably not riding on them—the way it depended on the owner's financial skills, say, in the business's earliest days. With the connection between particular skills and business survival no longer so obvious, an entrepreneur may be slow to change his or her leadership style.

For example, it took Keith Thorndyke a while to uncover a communication problem at Recyclights, a 28-employee, Minneapolis-based company that recycles fluorescent lights.

Thorndyke, chief executive officer of Recyclights, says he expects sales this fiscal year of \$1.6 million or so, more than double last year's figure, and he is planning for expansion into other states. At first, communication was not a problem, he says, "because everybody knew what was going on and where we were going." But as the company grew and became more structured, "we ran into the bumps."

He thought empowering workers alone would be enough: "You give them a task and let them go." But, by soliciting feedback, he learned that his employees also wanted to help give shape to the corporate goals, instead of simply carrying out a plan handed down to them as a finished package.

Thorndyke says he now understands that "I need to communicate the strategic





## MANAGING

direction in little bits, more often. Not all at once in a big session, but by going around and talking with them, a little bit all the time."

The idea of taking such a bit-by-bit approach may inspire derision in some small-business owners; it may sound too small-scale for people with big dreams. But, in fact, some entrepreneurs suggest, a constant flow of communication can create bonds that make achieving the big dreams easier.

Communication "seems like such a minor thing," says Charles Barnard, the owner of Foot Traffic, a chain of eight specialty sock stores based in Kansas City, Mo. "But it's probably the major thing that you have to focus on." Foot Traffic has begun publishing a mail-order catalog that Barnard sees as a key to the company's future growth. And he thinks it's vital that he convey respect, even in seemingly small ways, for the contributions of the employees building that end of the business.

Such communications, in whatever form, are probably still the exception. "We did a survey," Dale Carnegie's Levine says, "and we found that fewer than 7 percent of the people in the United States in the last six months had received a note from the person they report to, thanking them for working hard or achieving some team goal."

Barnard understands why. "A lot of the time," he says, "you get to running real fast, and you don't think of the people around you. But you can never get anywhere if you're pulling your staff behind you all the time." He likes the analogy of the entrepreneur as water skier: Let your employees be in the boat, pulling you where you want to go.

**S**tepping from one stage of leadership to another—from the self-absorption of the earliest stages to more active communication with employees as the business grows—can be tricky, like stepping from one slippery rock to another as you cross a stream. Make a misstep, and you can wind up in the drink. And the steppingstones are placed a little differently for every business.

It used to be that small-business owners had to pretty much find their own way

across those steppingstones, but in recent years they have finally had some help.

The satellite seminars offered by the U.S. Chamber's Quality Learning Services division were created in part to fill the vacuum.

The seminars present management experts in two-hour sessions, and a number of the seminars, led by such well-known authors as Stephen R. Covey (*Principle-Centered Leadership*) and John O. Whitney (*The Trust Factor*), have dealt specifically with leadership issues. Stuart Levine's seminar will be one of several leadership-oriented seminars in the spring 1995 series.

Another highly regarded source of leadership training for corporate executives is the Center for Creative Leadership (CCL), based in Greensboro, N.C. It offers a three-day Entrepreneurial Leadership Program (ELP) at its San Diego branch.

John Eggers, who runs the program, says that a common complaint from chief executives who attend is this: "I don't know what my job is anymore. I used to be the head salesman and cheerleader for my company, but now I've got a sales manager that does that. What's my job?"

One possible answer: The CEO's job is to build a company strong enough to let the CEO be an entrepreneur again. That is the leadership path Lisa Smith sees for herself. Smith started PIMMS Corp., her Minneapolis-based company, in 1988. PIMMS is an outsourcing company; as Smith says, "we get hired by consumer-brand manufacturers"—Procter & Gamble is one—"to go into retail stores around the country and do in-store servicing of their products," by, for instance, stocking shelves and putting up signs.

At the start, Smith says, "I basically did everything. Making sure all the details were taken care of was an extremely important part of my job." But as her company began to grow rapidly, with a concomitant growth in staff, she had to "back off," she says, "and act more as an overseer." PIMMS now has 72 full-time employees and works with 5,000 independent-contractor merchandisers across the country.

As her company has grown, Smith says, she hasn't found mastering the skills of communication and motivation a great strain, because she isn't using them to lock herself into one stage of leadership.

Instead, by using those skills to build a strong team—one capable of running the business largely on its own—she'll free herself to become an entrepreneur again, but this time with the resources of a successful company at her disposal.

In the next stage of her leadership of PIMMS, she will, she says, "put on my entrepreneurial hat and come up with where the company is going next. Now that we have this well-oiled machine, what else can we crank out of it? Where's the next service area that we can go into?"

Other entrepreneurs will find success by following a different leadership path and evolving into managers, but that's the point: Among entrepreneurs, as in other fields, the truly effective leaders are those who know their own strengths, and build on them—as Lisa Smith is building on hers. "If you're a high, high innovator," she says, "it's a gift—so use it. Don't fight it."

## More On Seminars

For information on the Quality Learning Services satellite seminars, including prices for downlinks and taping rights, call 1-800-835-4730 or (202) 463-5940. Catalogs of videotapes of earlier seminars are available by calling the same numbers. **16**



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## SMALL BUSINESS COMPUTING

# A Software Boom For CD-ROMs

By Albert G. Holzinger

**M**init Mart Foods in Bowling Green, Ky., is licensed to sell beer in some of its stores, and Fred Higgins, the company's chairman and chief executive officer, takes the responsibility seriously. Mandatory training includes emphasizing how important it is for employees to verify that those who buy alcoholic beverages are of legal drinking age.

But with about 1,200 sales clerks in the 106 Minit Mart convenience stores throughout Kentucky and Tennessee, providing and monitoring employee instruction can be difficult, Higgins says.

Because traditional training methods such as manuals and videotapes hadn't yielded results that were completely satisfactory, Higgins recently began an experiment in high-tech instruction with the aim of increasing employee comprehension, retention, and acceptance.

He hired VIS Development Corp. of Waltham, Mass., to produce a prototype course on alcoholic-beverage control in the computer data storage format known as CD-ROM (compact disk, read-only memory).

Andrew E. Snider, managing director of VIS Development, has produced more than 50 custom CD-ROM presentations for training and other purposes. He attributes the growing popularity of such presentations to their effectiveness.

The CD-ROM format is well-suited to the presentation of instructional and other kinds of complex material. A single disk, which looks like a common audio compact disk, can hold 650 megabytes or more of information. More than 450 3½-inch floppy disks would be required to hold the same amount of data. Moreover, data on a CD-ROM can be in the form of text, photos or illustrations, video clips, audio recordings, or all of these.

Though more a student aid than a business reference, the 1995 *Compton's Interactive Encyclopedia* by Compton's NewMedia Inc. of Carlsbad, Calif., is a striking example of the information-carrying capacity of a CD-ROM. A single CD-ROM contains the full text of the approximately 35,000 articles in the print version of the 26-volume encyclopedia as well as about 15 hours of audio recordings and more than two hours of video clips, three-dimensional animation sequences, and other graphics. This CD-ROM sells for about \$80.

*Multimedia programs for everything: training employees, learning the law, and being in the know.*



PHOTO: GREG LUTER

**Minit Mart Chairman Fred Higgins and store manager Lajuana Church evaluate a training course in the computer data storage format known as CD-ROM.**

Most CD-ROM software is for entertainment or education, and most CD-ROM players are in homes and schools. Yet like Higgins of Minit Mart Foods, managers of small and midsize businesses have begun putting CD-ROM technology to productive use in the workplace under at least three broad categories:

## Commercial Software Applications

Of substantial benefit to business users are the continuing efforts by many software publishers to take advantage of the CD-ROM's mass storage and multimedia capacities. Multimedia refers to a mix of text, sound, animation, and still and motion pictures.

For example, LegalPoint for Windows was published by Toneron Corp. of Overland Park, Kan., in August 1994 on two floppy disks, which sell for \$99.95. The program's mission is to help users reduce their legal expenses by enabling them to produce legal documents on their own. Unlike several competitors, whose products deal primarily with personal legal instruments such as wills, LegalPoint helps firms produce more than 70 common small-business legal documents, says Toneron's president, Todd Smith.

The software is selling well, and users

are generally pleased with the "expert guidance" it provides, Smith says. On the horizon, he says, is multimedia content on CD-ROM that will make the product even more useful in helping laymen correctly and confidently complete complex business legal documents.

The CD-ROM version of LegalPoint, which Smith says will be on the market by mid-1995, will feature a "video button" that, when activated with a mouse click, will launch one of about 100 explanatory motion pictures.

For example, says Smith, a video associated with the equipment lease suggested by the program will emphasize the critical importance of filing a supplemental financing statement with the state's secretary of state. (This filing provides the business owner with clear legal recourse in the event the lessee defaults.) Seeing and hearing this point made on a video, contrasted with merely reading it in text, "increase the software's educational value—and money-saving potential—at least tenfold," Smith estimates.

Commercial software published in CD-ROM format "can be a boon for small businesses," says Ron Logee, owner of MacMaven, a consulting, training, and multimedia design company in Arlington,



Va. "This technology gives entrepreneurs low-cost access to mounds of data never available to them before," says Logee, who also teaches multimedia courses at George Washington University, in Washington, D.C.

Nation's Business editors have put many CD-ROM programs designed for business use through their paces. Following are several that we found useful:

**Business Library, Volume 1** (\$59.95, Allegro New Media). A dozen business books and three business videos at your fingertips.

**Executive's Factomatic** (\$39.95, Compton's NewMedia Inc.). Not a video or audio program; just hundreds of megabytes of useful advice.

**Microsoft Bookshelf** (\$99.95, Microsoft Corp. Also available at low cost as an add-on to Microsoft's Word and Office Professional software programs). A powerful, easy-to-use reference suite including *The American Heritage Dictionary of the English Language* and *The World Almanac and Book of Facts*.

**Multimedia MBA** (\$99, Compact Publishing Inc.). An ambitious collection of financial, legal, management, marketing, and other business advice.

**Select Phone** (\$149, Pro CD Inc.). Five CD-ROMs containing more than 80 million residential and 11 million business directory listings nationwide. It's a useful product for direct mail, telemarketing, market testing, and more.

**Street Atlas USA** (\$79, DeLorme Mapping). A valuable tool for sales representatives and other business travelers. The program contains more than 12 million street segments and 1.1 million natural and man-made landmarks.

**Taxi** (\$79.95, News Electronic Data Inc.). Business travelers can also benefit from Taxi, which provides in-depth information on major U.S. cities. Maps include not only streets but also hotels, restaurants, and other points of interest gleaned from Zagat travel guides.

#### Data Storage

Our June 1994 cover story, "How To Buy Business Software," detailed how the 100-bed Transylvania Community Hospital in Brevard, N.C., used data-base software and recordable CD-ROM drives to condense seven years of patient records filed along walls of shelves 35 feet long and 7 feet high onto a few CD-ROMs.

CD-ROM recorders (referred to as CD-Rs) are devices that enable users to write almost any form of computer-generated data onto CDs, much as they would onto a floppy or hard disk, rather than

just retrieve information from them. The devices have proved beneficial to companies required to retain large volumes of data for some time, but the recorders have been prohibitively expensive for mainstream small businesses.

But CD-R prices, which averaged about \$5,000 as recently as last spring, are becoming widely affordable now. At the recent fall Comdex technology trade show in Las Vegas, several manufacturers displayed fast CD-Rs at prices around



PHOTO: T. MICHAEL REZA

Computer consultant Ron Logee says commercial software published in CD-ROM format "can be a boon for small businesses."

\$1,500, and several others featured inexpensive software that allows users to tap the recorders' vast storage capabilities.

Most small businesses probably could archive at least a year's business activities on a single CD, says Logee of MacMaven. Beyond typical business data such as accounting information and human-resources files, CD-ROMs are ideal for maintaining or distributing graphical sales-support material such as product specifications, manuals, and catalogs, says Richard Maynard, president of Richard Maynard & Associates. The firm, in Alexandria, Va., produces digital products, including CD-ROMs, for others.

Electronic product catalogs produced in-house, many in CD-ROM format, are increasing in popularity as marketing and promotion tools for businesses of all sizes.

Sales are robust at Prostar Interactive MediaWorks, in Richmond, British Columbia (604-273-4099). The company's easy-to-use MiniCat Builder software guides users in designing and producing electronic catalogs, brochures, and other types of sales literature. With this software, which costs \$199.95 direct from Prostar, and a CD-R, a business of any size or type could create CD-ROM catalogs containing virtually limitless photos and painstakingly detailed text or specifications.

Globe West Interactive of Vancouver,

British Columbia, a service provider to travel-related companies, is using the Prostar Interactive software to create two CD-ROMs for Cathay Pacific Airways of Hong Kong. Cathay Pacific recently upgraded its business-class service, and Globe West Interactive is preparing a CD-ROM with photos of luxurious aircraft interiors and explanatory text for distribution by sales representatives to travel agents. The second CD-ROM will be a catalog of short tours that commence at Cathay Pacific destinations.

"By using CD-ROMs, we can include hundreds of shots of restaurant interiors and other details that could not be included in a printed catalog due to factors such as printing costs," says Lawrence Wallace, vice president of Globe West Interactive.

#### Custom Presentations

Among the most complex but potentially most beneficial uses of CD-ROM technology are business presentations and training.

Logee of MacMaven says some small companies are learning that blockbuster sales presentations are achievable by combining on a CD-ROM some combination of text from a word processor,

charts and graphs from a presentation program, photos or other still graphics, music or narration, and perhaps even some video.

CD-ROMs may excel most at solving in-house training problems. Even at \$5,000 or more per training program, the CD-ROM is "an absolutely fantastic training tool," says Logee. People who interact with material on a CD-ROM will likely retain as much information as those taught by professional trainers, according to Snider of VIS Development.

For Minit Mart Foods, CD-ROMs thus far promise to be an ideal means of verifiable training. The primary appeal, says Higgins, the company's chairman, is that employees will be able to advance at their own speed and the company will be able to track progress via computer, unlike in training by videotape.

Higgins says CD-ROMs might well prove the best tool available not only for improving job skills and customer service but also for helping the company retain employees by providing opportunities for general education. "I think," he says, "we're just starting to scratch the surface of what CD-ROMs can do."



To order a reprint of this story, see Page 74.  
For a fax copy, see Page 36.



# New Directions In Franchising

By Meg Whittemore

**Franchising**  
SPECIAL GUIDE

*How companies are exploring unusual approaches to growth.*

**F**ranchising is entering a new era. A business segment that was once considered an upstart among independent business owners, it now commands 35 percent of retail sales in the United States. And most franchise companies continue to grow. By the turn of the century, industry experts say, 50 cents of every dollar spent by consumers will go to a franchised business.

president of Management 2000, a business management consulting firm based in Houston. "Franchisors realized that they were going to have to change their ways in order to remain competitive."

One example of the change occurring within franchising is the pace at which franchise companies are forming alliances with large nonfranchised businesses to take advantage of market share and

vertical communication, and franchisee advisory groups are finding their way into the franchising vocabulary. This is partly because many franchise companies have franchisees whose backgrounds include corporate management. Franchisors are also responding to their more sophisticated franchisees by examining their own leadership skills and developing better systems of communication.

A desire to give something back to the communities that helped them succeed and thrive has prompted many franchisors to formalize community outreach programs.

And education has taken a front seat within franchising, with more colleges and universities offering courses of study on franchising as a career. Franchisors, too, are placing greater emphasis on instruction, with some owners, such as those in the printing and photographic fields, updating and refining their training programs. Competitive pressures are driving the increased emphasis on training in some cases, while in others, franchisees are pushing the move.

The sometimes-strained relationship between franchisors

and franchisees continued to draw the attention of Congress in 1994, but broad federal legislation appears to be significantly less likely in 1995 now that the Republicans have gained control of the House and the Senate. The House Small Business Committee's incoming chairwoman, Rep. Jan Meyers, R-Kan., says she doesn't think extensive modifications in franchise laws are needed. "I do not think this issue will be high on the Republican agenda," she says.

Rep. John J. LaFalce, D-N.Y., who as a result of the shift lost the committee chairmanship, has held several hearings

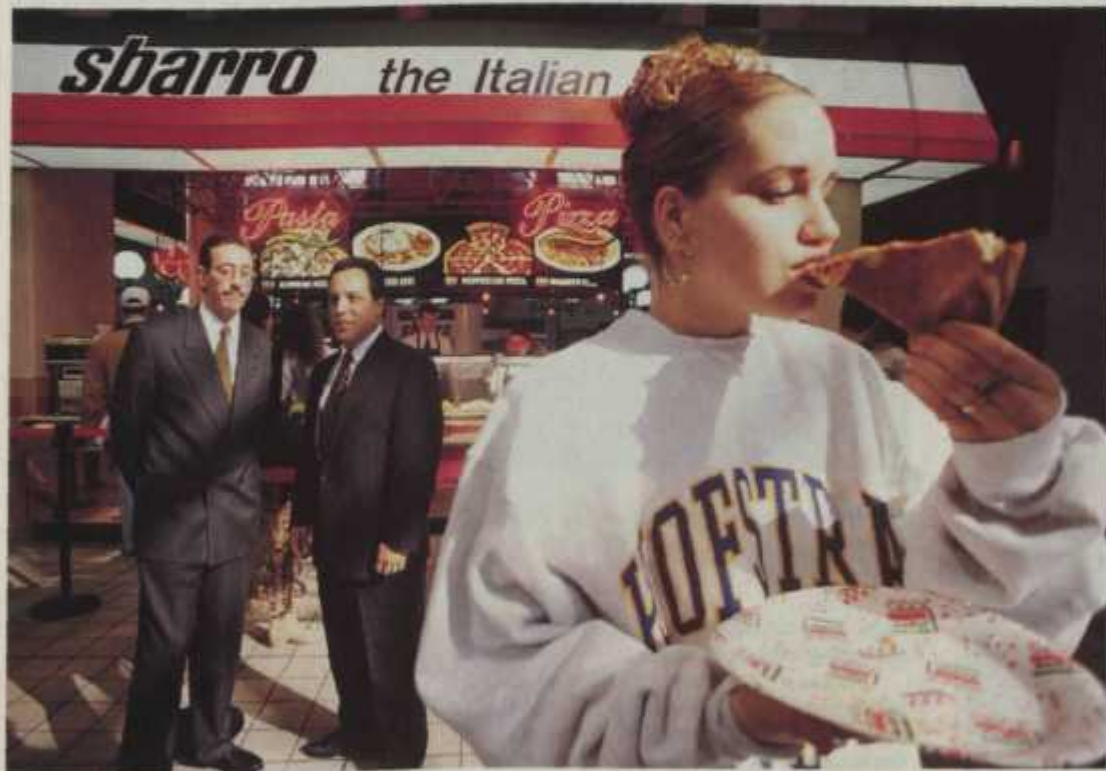


PHOTO: STONE ISODOR—BLACK STAR

**Nontraditional sites** such as college campuses have helped Sbarro grow. At Hofstra University on Long Island, N.Y., are Gerry Sbarro, left, and Peter Alessio of the franchisee, Lackmann Food Service.

Nonetheless, franchisors were reminded in the early 1990s that they weren't immune to the effects of periodic downturns. Banks and other lending institutions showed that they were reluctant to make loans to franchisees, often crimping franchise companies' ability to grow, according to an informal survey of bankers and lending officers conducted by *Nation's Business*. Consumers spent less of their discretionary income, which translated into lower profits at the franchisee level.

"The recession was a wake-up call for the franchise industry," says Bob Gappa,

brand recognition. Another sign can be found in the international market, which is beckoning U.S. franchise companies to expand their operations globally. At home, franchisors are making agreements with fellow franchisors and are locating within one another's establishments. And smaller stores are mushrooming at nontraditional but highly profitable locations such as airports, college campuses, and hospitals.

Internally, franchisors are recasting their management approaches to reflect the needs of their growing companies. The terms leadership, empowerment,



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in recent years on problems in franchising and has sponsored a package of franchising bills. Some of the problems include allegations of false earnings claims made to franchisees by franchisors, poor or nonexistent support following the purchase of the franchise, and encroachment, where franchise locations are too close to one another. LaFalce's bills died in the last Congress.

A discussion on change and growth would not be complete without mentioning the cornerstone of franchising: the customer. The most significant influences on how and why consumers spend money

Understanding the customer, providing consistent service, offering products at competitive prices, and keeping and maintaining a productive work force are just a few of the challenges facing franchisors and franchisees as they head into the new year. Here's how some franchise companies are meeting the challenges head on:

### Strategic Alliances

More franchise systems will enter into alliances with outside major corporations as the century comes to a close, industry experts say, as franchisors seek new ways

PHOTO: ©BART BARTHOLOMEW

Franchise development director *Dave Collins* says *Sir Speedy* is branching into information distribution. With him is *Kathy Lunde*, a California franchisee.

have been demographic shifts, especially the aging of the population.

"Those shifts seem to drive a lot of attitudinal—or value—kinds of behavior," says Linda Hyde, director of the Retail Intelligence System program at Management Horizons, a Columbus, Ohio, market research firm that tracks retail consumer behavior.

Hyde says the firm has found the following trends: a general decline in shopping frequency, a drop in visits to shopping malls specifically, a decline in the importance of brand loyalty, and a rise in attention to value—however customers define it—to the point of being all-important.

"The definition of value depends on what it is they are shopping for," says Hyde. She points out that there are many issues surrounding a consumer's determination of value: service, convenience, information, and, in some cases, the atmosphere and ambiance of the environment. "These issues apply at any price point," Hyde says.

to expand their market share without opening new locations.

To compete more effectively, **Moto Photo Inc.**, based in Dayton, Ohio, and **Fuji U.S.A. Inc.**, based in Worcester, N.Y., formed a strategic alliance in 1992.

"We were looking for a partner who could share our vision of growth and support that vision," says Michael Adler, **Moto Photo's** president and chief executive officer. The company is the country's largest franchisor of one-hour photo retail stores.

**Moto Photo** wanted a partner that was a technological leader, that had consumer brand-name recognition, that was promotion-minded, that offered high-quality products and services at a good price, that was an environmental leader, and that would be committed to **Moto Photo** and help the company grow.

"We wanted a company to whom **Moto** could be important so we wouldn't get lost in the shuffle," says David Mason, **Moto Photo's** chief financial officer.

**Fuji** fit the bill and agreed to include



# Franchising

## SPECIAL GUIDE

Moto Photo in its \$14-million-a-year international advertising budget. As a result, Fuji won instant market penetration through Moto Photo's 400 locations, and Moto Photo franchisees enjoyed Fuji's brand-name recognition and advertising reach.

Another company, Sir Speedy, Inc., the Laguna Hills, Calif., franchisor of business printing, joined Eastman Kodak Co. in an agreement involving the launch of Kodak's Photo CD Portfolio format in 1994. A Photo CD can hold the equivalent of 100 color photographs, 500 floppy disks, or 250,000 pages of text.

Kodak's Portfolio CD will allow franchisees of Sir Speedy and Copies Now (a Sir Speedy subsidiary specializing in electronic imaging) to create affordable multimedia presentations for customers. Such a presentation—including photos, graphics, text, and sound—may be played on a computer, a television monitor, or a CD-I, a playback unit developed by Kodak specifically to handle the company's Portfolio CD.

Sir Speedy provides business-printing technology, including breakthroughs such as high-speed copying, computer graphics, fax services, short-run color printing, and color copying.

"We see the CD as a communications tool for the turn of the century," says Dave Collins, director of franchise development. "We are positioning ourselves as being not only in the printing business but also in the business of information distribution, and CD technology is a natural extension."

(For additional information on how businesses are using CD technology to their advantage, see Small Business Computing, Page 43.)

### Nontraditional Sites

Franchising's phenomenal success has, in part, been a result of its ability to penetrate markets quickly and deliver consistent products and services. Domestic markets for some franchise systems, such as fast food, have been developed so thoroughly that the franchisors are pursuing nontraditional locations.

When Mario Sbarro brought his family recipe for Italian pizza to the United States 32 years ago, he had no idea that one day he would be looking at airports, sports stadiums, college campuses, and hospitals as his future growth market.

"We look for a captive audience when

we go into a non-traditional site,"

says Gerry Sbarro, vice president of Sbarro's Pizza. Those nontraditional sites include theme parks, gambling casinos, convention halls, riverboats, college campuses, and retail stores, such as Wal-Mart. "Today, the consumer's concerns are see it, buy it, eat it, and be satisfied," Sbarro says. "You have to go where they are and be ready."

Capitalizing on a captive audience fueled Tom Lackmann's decision to open a Sbarro franchise in the heart of Hofstra University's Hempstead, N.Y., campus,



PHOTO: GILBERT GUTZ

Franchising is a growth tool for LearnRight President Cynthia Minter. Here she tutors pupil J.P. Geise.

on Long Island. Lackmann is president and chief executive officer of Lackmann Food Services, Inc. The franchise opened last year in the student union, opposite the campus's bookstore.

"Within a month I was doing over \$4,000 per day in gross sales," he says. "It has been a phenomenal success."

Lackmann is no stranger to nontraditional site development. His contract food management company also handles the university's vending, catering, dormitory food, and concession stands. Lackmann's company, in business since 1968, also has food locations in the corporate headquarters of Bankers Trust, in New York City, and Prudential Bank, in Newark, N.J.

"Nontraditional sites are the key to future growth," according to Lackmann,



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## FRANCHISING

"and those of us in the food business know that."

Another company pursuing nontraditional sites is Baskin-Robbins USA, Inc. The Glendale, Calif., franchisor of ice cream and frozen yogurt recently signed an agreement with Coleman Oil, in Pikeville, Ky., and Thornton Oil, in Louisville, Ky., to open Baskin-Robbins outlets at 50 locations owned by the two oil companies. Other franchise companies, such as Taco Bell, Burger King, and Subway, already operate at the oil companies' convenience stores. "By building brand alliances, we are making it easier for consumers to enjoy Baskin-Robbins products wherever they go," says Bill Grimm, national director of franchise development.

Says Victor Allara, director of business development for Coleman Oil: "Now, in addition to pulling up for gas, oil, and sundry items, customers can enjoy freshly prepared, hand-dipped treats. The experience is fun for families and truck drivers alike."

Food isn't the only franchised product popping up in unlikely places. PostalAn-

nex+, the San Diego-based franchisor of postal and business services, has announced that it is opening an outlet at a San Diego Smith's Food & Drug Store. Smith's, based in Salt Lake City, is a grocery chain that also offers one-hour photo processing, video rentals, dry cleaning, and a children's entertainment center.

"The store should have daily traffic of about 2,000 customers," says David Wilkey, vice president of marketing for PostalAnnex+. "I just love that kind of exposure."

#### New Players

The inherent versatility of franchising can be seen as it spreads to relatively new fields.

One such area where franchising growth is expected to continue is education. Cynthia Minter, president of LearnRight Corp., in State College, Pa., believes that thinking skills can be taught and that the teaching of such skills can be franchised. "We teach students how their minds work, so they can control their thinking as learners," says Minter. "And when people buy a franchise, they will be getting that system."

**"Nontraditional sites are the key to future growth."**

—Tom Lackmann,  
Lackmann Food Services,  
a Sbarro franchisee

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## SPECIAL GUIDE

"There are a slew of new franchise concepts entering the industry," says Jeffrey Kolton, president of FRANDATA, a Washington, D.C.-based franchise data-retrieval/information services firm, "and many of them are driven by the advances in the field of technology."

Kolton says the rise in technology allows these kinds of companies to have access to the information they need in order to conduct business effectively.

### Management

While franchising has long excelled at quickly adapting to subtle shifts in the marketplace, ongoing and future changes affecting business may defy even the most agile of leaders.

Franchise experts agree that today's business climate is so niche-driven, so full of constant changes in customer tastes, that the whole idea of competition has changed.

How do you arm yourself to meet such challenges? Technology can help. Continuous market research may target an emerging trend or two. Intense training will net a stronger work force.

But perhaps your most significant allies are your franchisees and the strength of your leadership skills.

"Frankly, our franchisees can sometimes be a headache in making us move on a new, great product before we are ready

to move," says Michael Adler, the president of Moto Photo. "But they are our greatest resource. By identifying and prioritizing applications for us, they keep Moto on the cutting edge."

Allowing and encouraging the flow of information to rise within your organization instead of just trickle down through the ranks is an indication of healthy leadership. "Leadership goes where it is sent," says Ben Borne, a Chicago-based management development consultant. "We should therefore pay more attention to the delivery system that gets it there and how employees are expected to live with it once it arrives."

Franchisors tend to view themselves as leaders—and many of them are just that. But the idea of leadership may need revisiting—a housecleaning of sorts—if franchisors are going to guide and expand their companies into the 21st century successfully.

Vision, competence, and integrity are the three vital ingredients of effective leadership, says Borne.

"Without vision you cannot see where you are going and lead others there; without



A franchisor of one-hour photo retail stores, Michael Adler, president of Moto Photo, is teaming up with Fuji U.S.A.

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"Franchise 500", Entrepreneur, January 1993 & 1994

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competence, including your own, you cannot get there; and without integrity no one will want to go there with you anyway," he says.

Borne, whose firm provides individualized leadership training for small and medium-sized companies, offers these

points to consider as you sharpen your leadership skills:

■ Leaders try to teach something of value to their employees to enhance skill levels and careers.

■ Leaders dream of perfection and encourage employees to do the same.

## To Learn More

There's a wide assortment of information available on franchising. The topics include how to start a franchise, buy one, expand a franchised business domestically, finance a purchase, enter international markets, and set up internal training programs.

The International Franchise Association (IFA) offers a free publications list containing books, audio tapes, videotapes, and magazines. To receive a copy, send your written request to IFA, 1350 New York Ave., N.W., Suite 900, Washington, D.C. 20005.

If you want a more hands-on exposure to franchising, try attending one of the four scheduled World of Franchising Shows sponsored by the IFA and featuring only registered franchise companies. The Southwestern expo is July 8-9 in

Dallas; the Southeastern expo is Sept. 16-17 in Orlando, Fla.; the Northeastern expo is Sept. 30-Oct. 1 in Boston; and the Midwestern expo is Nov. 4-5 in Chicago.

The International Franchise Expo is scheduled for April 21-23 in Washington, D.C. The exposition features more than 300 franchise companies; last year's attendance topped 20,000. Sponsored by the IFA, the U.S. Small Business Administration, and the Minority Business Development Association, the IFE includes more than 50 educational seminars and workshops in the price of admission.

For more information, contact Blenheim Expositions, Inc., 1133 Louisiana Ave., Suite 210, Winter Park, Fla. 32789-2350; (407) 647-8521.

The American Franchise Association, 53 W. Jackson Blvd., Suite 205, Chicago, Ill. 60604, (312) 431-0545, offers seminars for the would-be franchisee. Contact the organization for more information.

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# Franchising

## SPECIAL GUIDE

■ Leaders have healthy egos, not fragile ones.

■ Leaders articulate how things should be—their vision—and what must be done to get there.

■ Leaders are able to distinguish what is possible from what is merely desirable; what's good for the business vs. what merely looks good.

■ Leaders make their employees not only more competent but also more confident, thus strengthening the organization as a whole.

Leadership is the capacity to translate vision into reality—and then to communicate the information to everyone in the system, thus making them part of the future success.

"Leadership not only has a purpose, it is a purpose," says Borne. "It is the ability to counsel, guide, direct, and yes, sometimes rule, toward the defined outcome."

### Community Outreach

Community involvement is an effective way of telling customers and employees

Among companies displaying at the Franchising and Licensing World Center's showroom in Chicago is The Knot Shop. The Chicago-based necktie retailer has 40 company-owned stores and is seeking franchisees.

that a company cares. Dick Rennick, president and founder of American Leak Detection, based in Palm Springs, Calif., is spurring the move within his company

toward increased community outreach. The company specializes in finding leaks in plumbing, gas lines, and swimming pools. Says Rennick: "Communities are the backbone of every franchise system. Without community support, our businesses would not have flourished. It is



PHOTO: STOOD BUCHANAN

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time to recognize the value of putting something back into the well."

While franchisees have often participated in community development through sponsorship of school events or charitable contributions to community programs, the participation in such efforts has been left up to the individual franchisee. Rennick wants to formalize a program in which franchisors look at community involvement in a new light—one that builds good citizenship and at the same time attracts new customers.

Take, for example, instances of natural disasters. Under the banner of the International Franchise Association, the Washington, D.C., trade group for franchisors, a plan to help Americans in times of need has been mobilized. Named the Franchise Emergency Action Team (FEAT), the association plans to mobilize its resources to help communities affected by tornadoes, hurricanes, earthquakes, riots, and other disasters. Both the American Red Cross and the Federal Emergency Management Agency have endorsed the concept. IFA's resources include not only

manpower but also restaurants, hotels and motels, transportation, construction, and repair and remodeling businesses. FEAT is the brainchild of American Leak Detection's Rennick.

"Our hope is that by activating FEAT in critical situations, we will be able to help our fellow citizens in the communities where we live and work," says IFA President William Cherkasky.

**"It is time to recognize the value of putting something back..."**

—Dick Rennick,  
American Leak Detection

As franchising faces the turn of the century, industry experts predict that the business segment will continue to produce innovative approaches to expansion as franchisors find ways to re-create themselves in the rapidly changing marketplace.

More attention will be paid to franchisee

issues, product and service enhancements, and mainstreaming franchise systems with international companies to produce a hybrid form of business that opens new markets.

"This is a dynamic time for franchising," says FRANDATA's Kolton, "and the sky's the limit." **18**

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**Nation's Business**



# Family Business

*A minority firm gets its third generation; caring for the golden goose; a sister is challenged.*

## OBSERVATIONS

### The Family In Black Businesses

By Sharon Nelton

When she was a girl, Phyllis Hill Slater recalls, she used to go out in the field with her father, electrical engineer Philbert D. Hill, doing measurements and other tasks to assist him. As an adult, she joined him in the engineering and architectural firm he had started in 1969, handling the marketing side of the business.

Her father died 10 years ago and left her the business. Today, with the addition of Hill Slater's daughter, Gina Slater Parker, Hill Slater Inc. is a third-generation, African-American family firm. Based in Deer Park, N.Y., the company has 20 employees. Hill Slater is president, but Parker, 30, an electrical engineer like her grandfather, is already running the day-to-day operations.

"I feel very proud to be able to pass something on to my children," says Hill Slater. "I also feel I have a duty to succeed." For her father, a black man born in the 1920s and reared by a young widow, starting a successful business was an exceptional achievement. "I feel that it's a very big responsibility not to go backwards," says Hill Slater.

The stories of successful black-owned family firms like Hill Slater Inc. need to

be told, according to Leslie J. Epps, of Columbus, Ohio, one of a handful of African-American family-business consultants in the country. These family companies serve as role models for other black-owned firms, and what they did to succeed, she says, is "information that needs to be shared."

Black families, says Epps, are looking "for a way to survive in an environment that continues to be negative." Black entrepreneurs, she says, start businesses "not to leave an institution but to provide a better lifestyle for the family itself."

White entrepreneurs, Epps continues, are more likely to think in terms of establishing an institution that can be passed on to their children because the culture is more supportive of them. "It provides the opportunity to think beyond survival," she adds.

Most black-owned family businesses acknowledge that they're black-owned but not that they're family-owned, Epps observes. If they did, she says, it would help them see that there are unique dynamics in a family business, and there are resources to help deal with them.

Among those resources are members of

an organization to which she belongs, the Family Firm Institute. FFI is aimed at enhancing the skills and knowledge of professionals serving family business; they include therapists, accountants, lawyers, insurance agents, and bankers.

Based in Brookline, Mass., FFI is trying to increase its minority membership so that minority-owned family firms can be better served. Later this year, in conjunction with its annual meeting, FFI will have a pre-conference workshop on minority-owned family business. For information, call Drew S. Mendoza, the workshop chairman, at (312) 604-5005.

Ultimately, recognizing the family part of black-owned businesses—so that adequate planning for business continuity takes place—not only will further the economic development of the African-American community but also will enhance the economic well-being of the families that own them.

When there's a business in the family, says Phyllis Hill Slater, the children need to know that it's an asset, it's part of their heritage, and it's something to be proud of. And, as she puts it, "A little bit of business is better than a good job."



PHOTO: T. MICHAEL KEZA

## PLANNING

### Golden Goose Mathematics

By Craig E. Aronoff and John L. Ward

Family-business ownership can be an outstanding investment, and that's why so many business owners are quick to remind their families to protect the goose that lays golden eggs. To provide the necessary protection, it's important that everyone in the family understand some basic financial math.

Families should be aware of four crucial questions:

- Are we making a good return on our investment?
- Should we sell the business to diversify our assets?
- Should we pay gift taxes now or death taxes later?

■ Should we take more money out of the business in dividends or bonuses?

As we examine these questions, we'll refer to the hypothetical financial statement of ABC Co. in the box on Page 55.

#### Return On Equity

Families should understand returns they achieve on their investment in their businesses. Business performance is usually measured as a return on equity—profit divided by the amount invested in the business.

Relatively passive, safe investments such as bank savings or bonds might yield 4 to 8 percent before taxes. For ABC Co.,



PHOTO: T. MICHAEL KEZA

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. They are principals in the Family Business Consulting Group, Inc.



the before-tax return on equity is 10 percent (\$50 net profit divided by \$500 equity). In reality, the return is probably greater. If the owner's bonus (above basic compensation) were viewed as part of the profit, ABC would be producing a 20 percent before-tax return on equity.

Unfortunately, calculations of return on

While selling the business may reduce risk, it also significantly reduces return. Thus, it is hard to beat a profitable, ongoing family business as an investment. That's why it's called a golden goose.

#### The Cost Of Not Gifting

We've often emphasized the importance of gifting ownership to the next generation sooner rather than later. The cost of not doing so can be quite high.

Assume that the owners of ABC must pay an effective gift tax of 40 percent (a very high rate for most business owners, who probably still have exemptions to use). If for gift taxes the value of the business is book value (equity) and if all the gifting occurs immediately, that tax would be no more than \$200 (40 percent of \$500).

If the business stays completely in the hands of the senior generation until its members die, taxes would likely be

much higher. Were the company to keep making the same \$30 profit after tax for 10 years, the business's equity, or book value, would increase to \$800 (10 times \$30 [profit per year] plus \$500 [current equity value]). The same level of estate tax would apply to the increased value of the business (40 percent of \$800 equals \$320)—a tax increase of 60 percent.

This example assumes no growth in the business. The more the business grows, the better early gifting becomes relative to later payment of gift or estate taxes. Gifting earlier, even at the expense of paying gift taxes, helps the golden goose continue to produce across generations.

(For further suggestions on passing a family business to the next generation, see "Keeping It In The Family," in *Small Business Financial Adviser*, Page 63.)

#### Taking More Out

Taking more money out of the business is expensive and can compromise future growth. ABC's owners have to pay personal income taxes on compensation or dividends received from ABC. To spend \$10, assuming a 33 percent personal tax rate, they have to receive about \$15 from the business. Were the \$15 left in the business, it would possibly earn the 20 percent return on equity—or another \$3 (20 percent of \$15). The real cost of spending \$10 is \$18!

Increasing the owners' take also compromises business growth. A company can grow approximately as fast as it leaves after-tax money in the business

without increasing debt levels. If we assume that ABC doesn't want to increase debt (already half of assets), the current rate of feasible growth is about 6 percent (\$30 [after-tax profit] divided by \$500 [equity]). If the family takes out an extra \$15, then the rate of feasible growth for ABC falls to 3 percent (\$30 minus \$15 divided by \$500).

Over 10 years, the approximate cost of that lower growth rate is huge. The math is 0.03 (reduced growth rate) times \$500 (equity) compounded annually. Nearly \$200 in long-term value would be lost to have the opportunity to spend \$10 more per year for 10 years. The "real" cost isn't just the personal taxes of 33 percent but the opportunity cost of reducing business growth by a total of about 50 percent.

#### The Central Questions

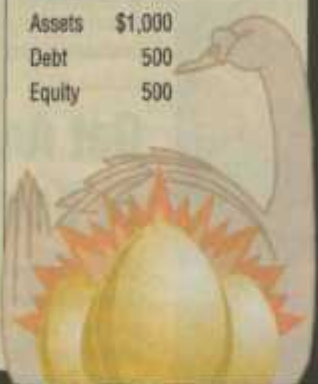
Our ABC examples, though a bit simplistic, point out critical questions for business-owning families: What's our return on investment? What's the approximate value of our business? What's the benefit in gifting stock rather than paying death taxes? What's the true cost of taking more money out of the business?

We believe that the more family members understand these concepts and their underlying math, the more they will want to protect the goose that lays the golden eggs.

## The ABC Company

### FINANCIAL STATEMENT

Income Statement		Balance Sheet	
Sales	\$1,000	Assets	\$1,000
Expenses	- 850	Debt	500
Operating Profit	150	Equity	500
Interest Expense	- 50		
Owner's Bonus	- 50		
Net Profit Before Tax	50		
Taxes	- 20		
Profit After Tax	30		



equity are complicated by the idea that a family investment's real value is not its equity (book value) on the balance sheet, but its market value—what the business would be worth if it were sold.

#### Selling The Business

Investments are evaluated by comparing them with alternatives. What would the business be worth if it were sold? Could we make a better return with a different investment? And wouldn't it be safer and more prudent to diversify our risk beyond just one asset, the company?

While it is impossible to know a business's precise value unless it is actually sold to someone with cash, estimates are practical. An approximate rule of thumb is that a business is worth six to eight times its operating profit, minus its debt. Assuming an operating profit of \$150 and \$500 debt for ABC and using the top multiplier, the company might be worth \$700 to the owners (8 times \$150 operating profit = \$1,200, minus \$500 debt = \$700).

If the business were sold, however, there would be capital-gains taxes to pay. These taxes might be about 25 percent of the sale price if the business has a "low basis"—that is, it was founded by the family with little "money down." Reducing the family's proceeds by 25 percent now yields \$525. Finding an alternative investment that would produce a \$100 return on a \$525 investment (or nearly the 20 percent that ABC now produces on equity) would be almost impossible.

## MARK YOUR CALENDAR



### Jan. 13-14, Baltimore

"Business Transition Seminar" addresses such issues as transferring ownership, changing leadership, and growing a family business. Call Terry Meyers at (317) 240-2912.

### Jan 13-15, Columbus, Ohio

The 2nd Ohio Conference for Family Businesses includes sessions on communication, estate planning, limited-liability companies, and the multiple roles of women in family firms. Write or call Ron Eberhard or Arlene Crosser, P.O. Box 458, Grove City, Ohio 43123; (614) 871-0114.

### Jan. 26-27, Long Boat Key, Fla.

"Tax-Free Wealth Transfer and Asset Protection" is a two-day conference for owners of family businesses worth over \$2 million. To be repeated Feb. 16-17. Call the National Center for Family Business at 1-800-598-6404.



## CASE STUDY

# Looking After Her Brothers Again, Big Time

Mary Catherine, 48, is once again being thrust into a role she thinks she was never meant to have.

As a young girl, she was expected to play a supporting role while her two older brothers were expected to work in the family lumber business. Mary Catherine played out her role extremely well after both parents were killed in an auto accident when she was 17. Even before the accident, she had known the pain of losing her parents—to alcoholism. She assumed the role of caretaker, maintaining the household for her brothers until all three siblings moved out of the family home.

Her Uncle Jim and then both brothers managed the growing business, while Mary Catherine got on with her life—entering into a 15-year marriage that ended in divorce, and rearing two daughters.

Mary Catherine recently learned that her older brother, Sean, who has an alcohol problem, is no longer functioning as president of the family business. Richard, the younger brother, has been doing his own job as vice president of sales and Sean's job as well. He feels burned out and wants his sister to assume leadership

of the business, which has grown to \$40 million in annual sales. Mary Catherine has been a board member for many years, and Sean sees her as a "survivor" who is bright, competent, and socially prominent—a plus for the business.

However, Mary Catherine says, "I've always been comfortable being the moon rather than the sun. I never thought I would be in charge." She has always been favorable to the idea of having nonfamily professional management for the company. Now she wonders if she should accede to Richard's request or continue in a supporting role and let a nonfamily manager run the business.

## Two Issues To Consider

Mary Catherine faces a significant dilemma under tremendous pressure. It would be easy to "go along" and do what is being asked of her, as she has done at other times in her life. At this point, however, her first step should be to take the time to decide what's best for herself and what's best for the company.

In considering what she wants to do, Mary Catherine can evaluate the requirements and responsibilities of the leadership role and determine whether she

feels she is competent and qualified and has the personal commitment to become the new leader. She should also examine the impact of new responsibilities on her personal life. Having weighed the issues, she should be able to answer the question, "Is this an exciting challenge or a heavy burden?"

In considering what's best for the company, Mary Catherine should evaluate what kind of leadership the business needs now and in the future. She should also ask herself such questions as, Am I a good fit? Can I work well with other company managers? If the answers to these questions are no, a nonfamily leader may be a better choice.

The questions then become: Is there a nonfamily employee capable and qualified to assume leadership? Is there an obvious choice who would be



PHOTO: JEFFREY WEST

**Susan Lazar,**  
principal of  
*Susan Lazar  
Consulting, a  
Minneapolis  
firm specializing  
in family-owned  
businesses.*

recognized as such? Or are there several possible candidates who might step forward? If there are no employees who are appropriate choices, what would be the consequences of identifying and bringing in an outside leader?

Mary Catherine should give herself adequate time to deliberate these issues fully because her decision will have a significant impact on her personal life and on the future of the company and its employees.



ILLUSTRATION: DAVID CHEN

## Get Answers To Key Questions

Mary Catherine's foremost challenge is to determine whether she wishes to continue her life as a "survivor" or to take charge and experience the joy of her own achievement. I recommend that she seek answers to at least the following questions before deciding whether or not to assume leadership of her family's business:

Who actually owns the business, and does ownership equal control in this firm? If her brothers have substantially influenced her life for the past 30 years, what

will prevent them from doing so in the future? Do Sean and Richard both want her to run the business, or are they divided? What is Uncle Jim's position on the issue?

What will happen if either a recovering Sean or a rested Richard wants to take charge again? Is Mary Catherine's advocacy of nonfamily management borne of her feeling that her siblings and uncle were inadequate managers, or is she reacting to her internal desire to have someone besides herself in command? Can she take charge? Is she adequately trained to run a \$40 million company? What about the role of the next generation?

By addressing these questions, Mary Catherine can create a working plan for the management of both her family relationships and the family business. I would also recommend that she, her family members, and the board of directors create a detailed contract before she accepts the role of president. That contract should deal with all of the questions outlined above in addition to the general terms of employment.

Mary Catherine's biggest task right now is to articulate all relevant issues and collect sufficient data for a reasoned decision. Beyond that remains the earnest work of considering her needs first and then following her convictions.



PHOTO: SHANE-TEC

**Peter Williams,**  
director of *Inter-  
Act, a family-  
business consulting  
firm in  
Haverhill, Mass.*

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Brookline, Mass.



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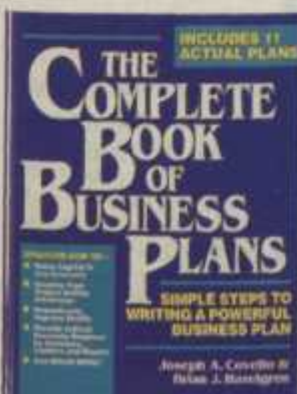
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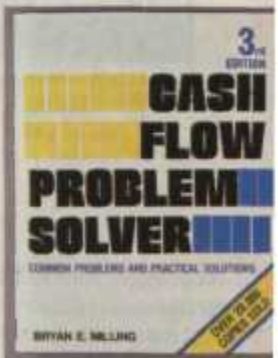
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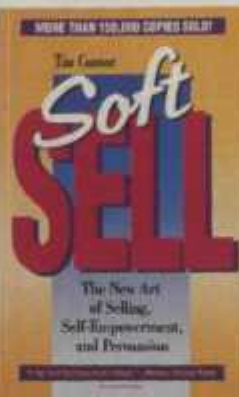
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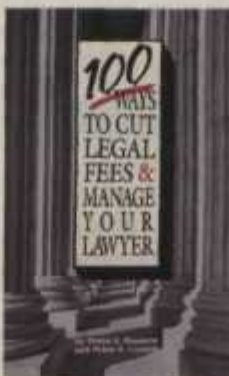
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# Small Business Financial Adviser

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## Keeping It In The Family

By Mary Rowland

If you own a family business that you wish to pass on to your children and grandchildren, chances are you have heard about the advantages of a family limited partnership: You retain control of the business while you pass on pieces of it to the next generation at a substantial discount.

It's not surprising that this kind of partnership has become one of the hottest estate-planning tools around. A measure of its popularity is the number of how-to seminars, audio tapes, and videotapes available on the subject.

"Family limited partnerships are the idea du jour," says Jeff Saccacio, director of personal financial planning in Southern California for Coopers & Lybrand. "They are the topic of every seminar these days with the suggestion that you drop the family home and everything else into it."

For that reason, many conservative accountants and estate lawyers are concerned that these partnerships are being used too aggressively and that the discounts are being pushed too far. "The Internal Revenue Service is not smiling at this at all," says Michael V. Bourland, an estate lawyer in Fort Worth, Texas.

That does not mean a small-business owner must avoid such partnerships. But it does mean you must be certain that you have set yours up properly and that the discounts are well-documented.

"A family business is a good candidate for a limited partnership," says Seymour Goldberg, an estate-planning lawyer in Garden City, N.Y. "It is one of the few ways to get a discount on the assets. But I would be very careful with it."

### Parental Control

In structure, family limited partnerships resemble the partnerships that invest in real estate or energy ventures. The parents, as general partners, control the partnership. The children are limited partners. "The general partners can set all the rules of how things will operate and under what conditions the children will get the money," Saccacio says.

The assets in the partnership might include the family business or a piece of in-

vestment real estate that the family wishes to pass on to the next generation undivided. "You might have a family lodge in the Adirondacks that you want to keep in the family but get out of your estate,"

nized that family members, too, have their fights and their disagreements," Rubenstein says. "Just because people are related doesn't mean they have the same ideas about running a business."



ILLUSTRATION: GARY MOORE

says Joshua Rubenstein, an estates partner at Rosenman & Colin, a New York law firm. "This would be an ideal asset for a limited partnership."

The chief advantage of such a partnership is that the assets can be transferred to the younger generation at a discount of face value, or a "minority discount." The discount is a recognition that a minority interest may be worth less than face value because it cannot easily be sold and the owner may have little control over the whole property. For example, the owner of 10 percent of a \$1 million business generally cannot sell that share for \$100,000.

Although the IRS has long recognized minority discounts, the agency had argued that family businesses did not qualify. When the entire business was held by family members, the family controlled it and there was no minority, the IRS had maintained.

But after a number of court decisions found in favor of discounts for family members, the IRS reversed itself in a February 1993 ruling. "The IRS recog-

That IRS ruling set off an explosion in family partnerships. Many legal advisers and accountants went far beyond the family business, recommending the partnerships for securities portfolios and other liquid assets. This aggressive use of partnerships has made some lawyers shy away from them. "I think a judge would call a partnership set up for stocks and bonds a sham transaction," Goldberg says.

### Red Flag For The IRS

Here's why many advisers also say that some partnerships push the discounts too far. Although a discount in the 30 percent range probably wouldn't raise eyebrows, some advisers who conduct seminars claim they can justify discounts of 50 percent or even 60 percent. "I'm not convinced that these kinds of discounts will win at the end of the day with the IRS," says John D. Dadakis, a partner at the law firm of Rogers & Wells in New York. Many lawyers expect the IRS to scrutinize the high discounts.

"The IRS has not made family



partnerships a target for audits," according to Don Roberts, an agency spokesman. But he adds that the kind of "issues that might arise would be how the minority discount was arrived at and the type of assets used in the partnership."

The best way to proceed is to get the family business appraised and, at the same time, have a formula set up for the discount. "Then, in subsequent years, you can continue to use the formula and have it retested maybe every five years," Dadakis says. The cost of getting an appraisal and setting up the partnership might run from \$10,000 to \$30,000, he says.

#### Transferring Assets

Once the business value and the formula are in place, the parents can use their annual exclusion to give assets to the children. Under this provision, each person can transfer \$10,000 in assets each year to as many people as desired without being subject to the unified gift and estate tax.

Under the right circumstances, the trouble it takes to set up the partnership

is well worth it. Assuming a discount of 30 percent on partnership shares, a share ostensibly worth \$14,286 may be given away annually tax-free. And a couple could give \$28,571 to each child instead of just \$20,000. With this discount, a couple could transfer \$1 million in property to three children without incurring gift taxes in just under 12 years. Without the discount, it would take almost 17 years.

Transfer of assets to children is particularly useful for items that are expected to appreciate because it will shrink the size of the estate. A welcome byproduct may be a smaller income tax bill, as assets move from family members in high tax brackets to those in lower tax brackets.

Another advantage is that creditors of the limited partners cannot touch the assets. "A lot of people want to transfer assets to their children, but they're afraid one of them might get into financial trou-

**"A lot of people want to transfer assets to their children. ..."**

—Neil Lubarsky

ble or get sued," says Neil Lubarsky, a lawyer in White Plains, N.Y., who specializes in estate planning. "The partnership solves that problem."

The bottom line: A family limited partnership makes a lot of sense for passing on a family business provided that the appraisal and the discounts

are calculated properly. If you have a legitimate reason for using one, don't be intimidated just because they've become the latest technique of aggressive-estate planners.

This type of partnership is one of the best ways to get the minority discount. If your partnership has a valid business purpose, you are entitled to the discount.

"You do not want to be in the position of trying to defend it based solely on tax savings," Goldberg says. "But I would not hesitate to do one if there is a business reason for it."

#### TAXES

### Treating Your Company Car As A Tax-Free Benefit

A company car can be a nice tax-free fringe benefit for a business owner if it's handled correctly. But handling it correctly is not easy. Congress, which enacts tax breaks like this one, and the U.S. Treasury Department, which interprets laws and writes regulations, have created a complex system of rules affecting the use of company cars.

Boiling the rules down to essentials, there are two basic choices involving ownership: Either the company can own the car, or you as the owner/employee can own it. (You have to be an active, participating owner/employee to qualify for the tax break.) Either approach can get you the desired tax-free fringe benefit, although record keeping may be simpler if the company owns the car.

As a company owner/employee, you may prefer to own the car. A plan can be set up for you to account properly for the car's use. The company then reimburses you for your costs.

Under this approach, the tax results would be as if the company owned the car. The amount of reimbursement would be treated as a tax-free fringe benefit to you. (The same would apply to a nonowner employee who owns a car and uses it for company purposes.)

Whether the car is owned by the company or by the individual, there are some basic rules to keep in mind. The com-

pany's deductions for the car's expenses are calculated two ways: either by itemizing actual expenses, or by using the standard mileage rate, which for 1994 is 29 cents per mile. At press time, the IRS had not yet announced the rate for 1995.



ILLUSTRATION: GEORGIA McDONALD

Itemizing actual expenses often gives you a larger deduction if you own a luxury car. For example, the maximum depreciation allowable for a business automobile in 1994 is \$2,960 in the first year, rises to \$4,700 in the second year, then falls to \$2,850 in the third year and \$1,675 a year thereafter. (Thus it should take 21 years to depreciate a \$40,000 car.) If you drove 10,000 miles a year, your depreciation plus other expenses would exceed the standard allowance calculated at 29 cents per mile for at least the first three years.

Despite the possibility of higher auto-

mobile deductions, most individuals use the standard deduction of 29 cents a mile because it's often not worth the extra expense and effort it takes to record all the costs. When the standard mileage rate is used, there is no need to prove actual expenditures for gasoline, oil, and maintenance.

Records of tolls and parking fees, which are deductible in addition to the standard mileage allowance, should be maintained in any event.

Things really get complicated when a car is used for both business and personal reasons. The company must apply a business-use percentage to its automobile costs, and good record keeping is essential. The business portion of these costs (i.e., the portion that is a tax-free fringe benefit) is deductible by

the company, with no withholding or payroll tax on this amount.

The portion of a car's costs that can be attributed to personal use is also deductible by the company as compensation to the individual owner, but that amount is subject to withholding and payroll taxes and is taxable to the owner or employee. These rules apply whether the company or the individual owns the car.

For more information, call the IRS for a copy of Publication 917 (Business Use Of a Car); 1-800-829-3676.

—Albert B. Ellentuck



# AUDITS

## IRS Turns Its Attention To 401(k) Plans

The Internal Revenue Service plans to increase its scrutiny of those highly popular 401(k) retirement plans. And if compliance problems are discovered, individual employers could end up losing their tax benefits and be subject to penalties and interest.

Small firms are especially vulnerable to the new IRS effort because most of them lack the technical expertise of large companies to oversee the complicated compliance aspects of 401(k) plans.

Tremendous growth has occurred among 401(k) plans within the past eight years. Virtually every large company has a 401(k) plan for its employees, and a growing number of small employers now offer them, says Ed Emerman of Foster Higgins, a benefits consulting firm based in New York.

To date, the level of IRS audits of these plans has not reflected their tremendous popularity, says C. Frederick Reish, managing partner of Reish & Luftman, a Los Angeles law firm that specializes in pension consulting and litigation. But the IRS is signaling a change in focus. It recently issued 401(k) examination guidelines, an indication that it plans to step up its auditing effort, Reish says. An IRS spokesman confirms that "the guidelines

are intended to provide guidance for agents when they examine plans." The guidelines help agents get acquainted with the major issues in a specific field designated for auditing so they are up to speed before the audit starts, he says.

As the IRS looks more closely at 401(k) plans, it will focus on certain problem areas. Companies of all sizes are likely to



ILLUSTRATION AND CHART: GEORGIA McDONALD

be scrutinized. The problem areas include:

■ **Improper salary deferral elections.** The law does not allow employees to defer a portion of their salaries to a 401(k) plan in the middle of the year for compensation they have already earned. Failure to comply with this regulation can result in IRS penalties.

■ **Improper distribution of benefits.** Salary deferrals to 401(k) plans may be

distributed only upon death, disability, attainment of age 59½, separation from the company, hardship, or, in certain circumstances, termination of the plan. The IRS can penalize companies for errors in the required benefit-distribution forms.

■ **Failure to comply with limits set for salary deferrals.** In 1994, participants may not defer more than 20 percent of gross pay or \$9,240, whichever is less. In addition, the anti-discrimination rules of the Internal Revenue Code bar preferential treatment of highly compensated employees. Companies should evaluate compliance annually to avoid errors. Violations can be corrected, but in doing so requirements must be followed carefully.

■ **Failure of partnerships to follow rules that apply specifically to them.** For example, partners given the option of changing the percentage of their contribution to another type of retirement plan could inadvertently change that plan into a 401(k) plan, resulting in the disqualification of the other retirement plan.

In light of the IRS's new examination guidelines, employers who offer 401(k) plans must be especially vigilant. Every plan should have a high-quality, third-party administrator to help spot problems, Reish says. If a plan has a defect in one of the areas described, advisers suggest that professional help be obtained to resolve the problem before the plan is audited.

—Joan C. Szabo

# PENSIONS

## Check Portfolio Management Fees

Chances are, your pension plan's investments were earning good money a year or two ago but aren't making much now—or may even be losing money—because stocks and bonds have had a mediocre year.

Now is a good time to take a look at how much you are paying to have someone manage your pension portfolio.

There may be two types of fees involved—one charged by the mutual fund or insurance company that manages your pension plan, and one charged by a financial planner.

Financial planners' fees are easy to see. Clients typically pay X dollars a year per participating employee for advice on setting up and maintaining a company pension plan. The same holds true for individuals who use financial planners to set up personal pension plans.

Fees charged by mutual funds

and insurance companies are harder to see. In general, mutual funds' fees average 1 to 2 percent a year. Insurance companies' fees for annuities, a popular retirement-fund device, average 2 to 3 percent. The exact amounts should be stated in annual reports on fund performance.

"When your fund was making 10 or 12 percent a year," says Dan Maul, president of Retirement Planning Associates, based in Kirkland, Wash., "you probably didn't pay much attention to the management fees and other charges." But when the investment

numbers are negative, Maul says, "high management fees can increase your losses."

What do you do if your investments' fees are too high?

"You can transfer your assets to another investment management company," says Rick Adkins, a financial planner with the Arkansas Financial Group, based in Little Rock.

But before you do, find out whether there is a withdrawal penalty or commission for moving your funds before a certain amount of time has elapsed. Depending on the size of the penalty, you may want to postpone the transfer until the penalty period has passed.

If you are considering switching assets to another investment manager or are thinking of setting up a new retirement fund, the timing couldn't be better.

"Investment managers are moving aggressively into the small-business market, and the competition is fierce," says Laurie Heavey, editor of *Pension World* magazine. "It's a buyer's market."

—Peter Weaver





## INVESTING

# Finding Bargains In Your Own Back Yard

By Randy Myers

Anybody who has heard the recent hype about international investing may be excused for wondering if there is still a reason to invest in stocks closer to home.

At the start of the decade, researchers at Chicago-based Morningstar Inc. were tracking just two mutual funds focused on investments in Latin America, Eastern Europe, and the Far East, where it was hoped that fledgling capitalist economies would provide big opportunities for adventurous investors.

Today, Morningstar follows 35 such funds, all touting the chance to make money in countries where most U.S. investors have little or no knowledge of local customs, business practices, or economic developments. And we haven't even touched on the scores of funds devoted to mature international markets, such as those in Western Europe and Japan.

## Local Gems

If you think casting so far afield for investment ideas sounds risky, you may be a candidate for backyard investing. Backyard investors find plenty of investment opportunities right under their noses—gems that are unrecognized or maybe misunderstood by the distant pros on Wall Street.

"I learn a lot just by driving into the parking lot of one of our companies, but I don't learn it if I drive into the parking lot [only] once a year," observes Norman F. Klopp Jr. of Roulston Research Corp. in Cleveland, which specializes in research on Midwestern companies for institutional investors. Klopp, who frequently visits companies in which he invests, manages the Roulston Midwest Growth mutual fund, which is open to individuals and has outperformed benchmarks such as the Standard & Poor's 500 Stock Index by a wide margin since its inception last July.

Beyond such logic, there's an innate appeal to investing in companies we know—companies we can see, touch, feel, and read about in our local newspapers, whose employees and executives we bump into at the local supermarket, in church, or even at family picnics.

Joseph E. Besecker was a stockbroker during the market's infamous October 1987 crash when he discovered just how strong that appeal can be. Inundated with calls from clients who wanted to sell stocks, he ran through their holdings one

by one for approval to sell. To his surprise, many didn't want to unload shares in the local companies they counted on to provide utilities, banking, and jobs.

Spotting a need, Besecker founded and is now president of Emerald Asset Management, a money-management firm in Lancaster, Pa., that focuses on investing in Pennsylvania companies. Its

of them, just by the numbers, are going to be good investments. Our job is to find the great ones, and you do that by getting to know these companies well."

## How To Begin

If backyard investing makes sense to you, there are several ways to get started.

Begin by using your eyes and ears. Is a local defense contractor hiring back your friends who were laid off two years ago, suggesting that its business is on the upswing? Are you particularly impressed with the local department store that is opening new locations?

If so, call the company's director of investor relations (at small firms it may be the chief financial officer or even the president) and ask for a copy of the company's latest prospectus, annual and quarterly reports, annual 10-K filing to the Securities and Exchange Commission, plus any research about the firm that may have been published by investment banks. Talk to a regional broker about the firm.

If you're still interested, call the company back and ask for a meeting with its president or chief financial officer to get a perspective on the company's future.

## Getting The Facts

Do your homework. There's no substitute for the hard data available from financial reports. And no investment strategy, including backyard investing, is foolproof. Witness that only four of 11 regional mutual funds tracked by Morningstar over the past three years have outperformed the S&P 500 during that period.

"Just as the management of companies is important to investment decisions, the management of individual mutual funds is key, too," observes Michael Mead, a veteran regional stock analyst with Legg Mason Wood Walker Inc., a Baltimore-based brokerage firm.

A regional mutual fund may be right for you if you're uncertain about your ability to pick individual stocks, if your portfolio is too small to allow for adequate diversification among individual issues, or if you would like to take advantage of a fund's local presence in a region other than your own.

NE

## Some Top-Performing Regional Mutual Funds

Percentage Increases In Value For Periods Ending Sept. 30, 1994

Fund Name	Year-To-Date Total Return	One-Year Annualized Return	Three-Year Annualized Return
Amsouth Regional Equity	0.98%	2.45%	14.32%
HomeState PA Growth	3.09	7.91	N/A*
Roulston Midwest Growth	6.42	12.25	N/A*
Victory Ohio Regional Stock	2.48	6.29	13.84
S&P 500 Stock Index	1.33	3.68	9.16

\*Not applicable; fund is less than three years old. SOURCE: MORNINGSTAR INC.

HomeState Pennsylvania Growth Fund has been one of the top-performing mutual funds in the country recently, posting a total return (which assumes reinvestment of all dividends) of 7.9 percent for the 12 months ending Sept. 30, 1994. That compares with a return of 3.68 percent for the S&P 500. (HomeState carries a maximum sales fee equal to 5 percent of assets invested, which isn't reflected in its return figures.)

## A State Focus

Could limiting your investments to companies in your back yard hurt your returns? Perhaps, although you needn't—and probably shouldn't—limit yourself to local firms exclusively.

Still, regional specialists insist their focus isn't a handicap. Besecker, for example, notes that Pennsylvania has a \$227 billion economy. It's larger than that of Mexico, South Korea, or Australia, yet it suffers none of the currency fluctuations or political upheavals that can be deadly to the foreign equities held by today's popular international funds.

"There are 454 publicly traded companies in Pennsylvania," says Besecker. "I can guarantee you that at least 25 percent



To order a reprint of this story, see Page 74. For a fax copy, see Page 36.



# To Your Health

*Managing well includes managing your own health; here is advice to help you do that better.*

By Phyllis M. Barrier

## How To Fight Fat In The New Year

If a poll were taken, no doubt "losing weight" would be one of the most popular New Year's resolutions—and one of the most quickly abandoned.

A key to losing weight is cutting down on the amount of fat we eat. But a general resolve to fight fat won't do the trick; you have to seek out the enemy and attack it with precision. Here are some tips:

### Cooking

The National Heart, Lung and Blood Institute, part of the National Institutes of Health, recommends that you eat no more than 6 ounces of cooked meat, fish, or poultry a day. Eight ounces raw will cook down to about 6 ounces. You can divide this however you wish—for example, 2 ounces at lunch and 4 ounces at dinner, or 3 ounces at both.

Brush cookware with only a small amount of olive or canola oil, or better still, use a nonstick cooking spray whenever possible. Nonstick cookware, which has greatly improved over the years, is essential in low-fat cooking.

Grill rather than sauté, and sauté rather than deep-fry. Other cooking methods that remove fat include poaching, broiling, and baking. Be sure to use a rack when broiling or baking so the meat or poultry isn't sitting in its own fatty juices.

Defat meat broths, juices, and drippings by chilling in the refrigerator and then lifting the layer of fat off.

Soups are versatile—they can be an appetizer or the main dish. Serve broth-based or vegetable-based soups more often. A soup containing pasta or grains (rice, barley), plus vegetables and lean meat, beans, or seafood can give you all the variety you need in a meal.

Substitute low-fat ground turkey for beef when making burgers, chili, meat loaf, tacos, or spaghetti.

Main-dish salads—a chef's salad, for instance—can be high in fat, even before

the salad dressing is added. Substitute water-packed tuna, salmon, or shellfish for the meat and cheese, with low-fat or fat-free dressing.

Use nonfat or low-fat versions of ricotta, sour cream, cream cheese, and other dairy products in cooking, rather than the whole-milk versions.

To make fat-free gravies and sauces,



PHOTO: CTE PHOTOGRAPHY LIBRARY-UNIVERSITY

**Want to lose weight? Stock your refrigerator with nonfat and low-fat foods.**

brown flour in an iron skillet until it has a caramel color; turn off heat and continue stirring until the flour cools. Store this browned flour, and combine it with meat juices, broths, or drippings that you have defatted; heat to a boil, stirring, and presto, you have fat-free gravy.

Serve plenty of vegetables to round out a meal that contains smaller portions of meat or poultry. Microwave, steam, or stir-fry vegetables and sprinkle with herbs or lemon juice for a nice low-fat side dish. Also serve big side salads that have taste and visual appeal from a variety of fresh greens and assorted vegetables.

Vary breakfasts by serving hot and cold cereals, as well as quick breads (banana,

cranberry), pancakes, or French toast, all made with skim milk, small amounts of oil, and egg whites.

### Shopping

When you go grocery shopping, advance planning is essential so you can avoid last-minute impulse purchases of high-fat foods. Take a list, stick to it, and don't go when you're hungry.

Buy fish most often (for soups, salads, main courses), followed by poultry (white meat is leaner than dark), and then lean meat. Work in some vegetarian meals as well.

Choose lean cuts of meat that can be trimmed of all visible fat. "Round" or "loin" cuts—beef tenderloin, eye of round—are good choices. And pick "select" rather than "prime" or "choice" grades—"select" has less fat.

Buy and serve breads and rolls (sourdough, multigrain) that don't require added fats, such as margarine, cream cheese, or olive oil, to taste good. Avoid croissants, cheese breads, and any other breads that make your fingers greasy. Purchase plenty of fresh fruit for snacks and desserts. Variety makes a big difference. Choose nonfat or low-fat ice cream products, frozen yogurts, or sorbets. These can be jazzed up with a sprinkle of fresh berries.

Buy at least 95 percent fat-free lunch meat as well as low-fat (less than 30 percent of calories

from fat) hot dogs and sausages. Look for low-fat cheeses that contain no more than 5 grams of fat per ounce.

There's a revolution going on in snack foods—look for low-fat cookies, microwave popcorn, and baked (not fried) chips.

Use the Nutrition Facts panel on the food label to compare similar products and select the one with the fewest grams of fat or the lowest percentage of calories from fat.

After you've learned to cook and eat the low-fat way, you'll find that high-fat foods have lost their appeal—most of them, anyway. Sometimes even the healthiest diet has to make room for an occasional potato chip or chocolate-chip cookie. ■

Phyllis M. Barrier is a registered dietitian and nutrition consultant in the Washington, D.C., area.



# Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

## AUTOMOTIVE SERVICES

### Customized Cars

What information is available that would help me successfully launch my own car trim shop?

D.C., Des Moines, Iowa

Trim shops specialize in enhancing the appearance of automobiles and other vehicles by installing upholstery, carpeting, convertible tops, dashboard covers, and other customized accessories.

There are more than 12,000 automobile trim shops across the United States, representing an industry with sales of \$2 billion a year, according to the National Association of Auto Trim and Restyling Shops, a trade group.

Angelo Varone, the organization's executive director, recommends getting experience by working at a trim shop before opening one yourself. "These shops are a cottage industry," he says. "It is still a highly skilled craft, demanding a lot of cut-and-sew ability."

Varone says demand for trim work from new-car dealerships is high, mainly because of the continued interest in customized cars.

According to Varone, the most popular car trim items are leather upholstery,

exterior pin-stripe painting, and upgraded carpeting.

The trade group publishes a monthly magazine, *Auto Trim & Recycling News*,



ILLUSTRATION: MARTHA VAUGHAN

which covers the industry. Each year, an issue focuses on suppliers. An annual subscription costs \$30. Varone suggests that you contact Brenda Keys, the association's executive assistant, if you need more information. You can reach her by writing the National Association of Auto Trim and Restyling Shops, 6255 Barsfield Road, Suite 200, Atlanta, Ga. 30328, or by calling 1-800-241-9034, Ext. 269.

## TELEMARKETING

### Touting Tuxedos

We run a tuxedo rental company and need information on telemarketing, including tips on scripts and phone etiquette.

N.S., Dunmore, Pa.



Misti Christensen, managing director of the Minneapolis-based Telemarketing Managers Association, says more and

more business owners are getting training in telemarketing techniques. "Advertising used to be the only method businesses used to get their word out," she says, "but now store owners realize that the customer wants to hear directly from them."

The group offers nonmembers a free brochure containing information on telemarketing and association membership. It also sponsors certified telemarketing representative programs for members and nonmembers. The seven-week course covers professional telemarketing standards, phone sales, technology, problem solving, and protocol.

Christensen says business owners often take the course "to educate themselves about how telemarketing can benefit their businesses."

The certification seminar costs \$250 to \$300, depending on location. For more information, write the Telemarketing Managers Association at 8030 Old Cedar Ave., Suite 225, Bloomington, Minn. 55425, or call (612) 853-9849.

## DRIVER'S EDUCATION

### Rules Of The Road

I need information on how to set up a driving school.

W.P., Grand Rapids, Mich.

Regulations on opening and operating a driving school differ from state to state, says George Hensel, co-founder of the Driving School Association of America. "Many states require an apprentice program involving months of working in an existing driving school," he says. An instructor typically must be sponsored by an approved driving school and must spend 40 hours of training in the classroom and 20 hours in a car. For information on regulations, contact your state's department of motor vehicles.

You can contact Hensel at the Driving School Association of America, 111 W. Pomona Blvd., Monterey Park, Calif. 91754; (213) 728-2100.

## RETAILING

### Managing A Mall

I just sold my small retail business, which was in a small shopping mall. I want to manage the mall and/or help other small companies lease space there. Where do I go for training and more information?

L.M., Little Rock, Ark.

The International Council of Shopping Centers each year conducts accreditation programs at various locations across the country for shopping-mall managers and leasing agents. Upon completion, the successful participant earns a designation as certified shopping center manager or certified leasing specialist.

The trade group also offers books, videotapes, audio tapes, and other useful materials on the shopping-center industry. Prices vary.

For more information, write the International Council of Shopping Centers at 665 Fifth Ave., 11th Floor, New York, N.Y. 10022, or call (212) 421-8181.

## HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Writers will be identified only by initials and city. Questions may be edited for space.



## PET SUPPLIES

### Chow Time

I would like to expand the inventory of my pet-supplies store to include pet food. How can I contact suppliers?  
*F.P., Norwag, Maine*

Ruth Reisinger, association coordinator for the Pet Industry Distributors Association, can send you a free list of suppliers. The organization sponsors two trade shows annually.

For more information, contact Reisinger at the Pet Industry Distributors Association, 5024-R Campbell Blvd., Baltimore, Md. 21236; (410) 931-8100.

## REGULATION

### Alcohol And Tobacco Rules

I am considering starting a business that would require knowledge of state and federal laws on selling alcohol and tobacco. Who can help?  
*J.J., Gloversville, N.Y.*

Information on the federal regulations is available from the Office of Congressional and Media Affairs at the U.S. Department of the Treasury, Bureau of Alcohol, Tobacco and Firearms; (202) 927-8500. For information on state rules, contact the appropriate state agency.

## BOATING

### From Bow To Stern

I want to open a marine store, but I need some information on what is involved and where I can go for help.  
*O.T.W., Apalachicola, Fla.*

There are several trade associations that may be useful in helping you get your business started.

The Marine Retailers Association of America, based in Chicago, focuses on the retailing aspects of recreational boating. The trade group's monthly newsletter, *MRAA*, covers the industry and is available to members only. Membership fees start at \$150 annually. For more informa-

tion, write the Marine Retailers Association of America, 150 E. Huron St., Suite 802, Chicago, Ill. 60611-2912; or call (312) 944-5080.

The National Marine Electronics Association, which is made up of marine electronics dealers and manufacturers, provides information on navigational aids, such as radar, compasses, and communication devices.

The association also holds educational seminars for members and nonmembers throughout the United States at least twice a year. The organization also provides the *NMEA 0183 Interface Standard*, a manual for users of marine electronics. The information applies to equipment worldwide and is priced at \$75 for nonmembers.

For more information, write the National Marine Electronics Association at PO, Box 3435, New Bern, N.C. 28564-3435; or call (919) 637-7759.

The Boat Owners Association of the United States (BOAT/US) calls itself a "single source of information and assistance on all matters relating to boating." While its primary members are boat owners and operators, the group welcomes inquiries from all interested parties.

For more information, write BOAT/US, 880 S. Pickett St., Alexandria, Va. 22304, or call (703) 823-9550.



# Nation'sBusiness

## The Small Business Resource Guide

What You Need To Know About Starting, Running, and Growing Your Business

Revised  
and  
Expanded  
Edition

From The Editors  
OF DIRECT LINE

### The Small Business Resource Guide

What You Need To  
Know About Starting,  
Running, and Growing  
Your Business



Nation'sBusiness

This updated and expanded edition answers the most frequently asked questions to Direct Line, the popular advice column for small-business owners and managers. The 84-page guide provides the latest how-to information and expert advice on crucial business concerns such as:

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# Where I Stand



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## On The Contract With America

**Background:** Leaders of the new Republican majority in the House of Representatives have committed that body to voting by April 13 on the 10 issue areas covered in the Contract With America. Nearly all GOP House candidates signed the contract. These questions seek your views on the main elements of that agenda.

Send the attached postage-paid response card. Or circle your answers below and fax this page to (202) 463-5636.

- 1 The Fiscal Responsibility Act:** A balanced-budget/tax-limitation amendment and line-item veto power for the president.

1. Support  
2. Oppose  
3. Undecided

- 2 The Taking Back Our Streets Act:** Lengthen prison sentences; remove barriers to imposing and carrying out death sentences; and shift to prison construction the funds earmarked for social programs in the 1994 crime law.

1. Support  
2. Oppose  
3. Undecided

- 3 The Personal Responsibility Act:** Deny welfare benefits to unmarried mothers who are minors and to welfare mothers who have additional children; halt the growth of welfare programs; limit welfare eligibility; and impose work requirements for benefits.

1. Support  
2. Oppose  
3. Undecided

- 4 The Family Reinforcement Act:** Bolster enforcement of child support; provide tax incentives for adoption; strengthen parents' rights in their children's education; toughen penalties for sex offenses against children; and provide a \$500 tax credit for care of elderly parents or grandparents.

1. Support  
2. Oppose  
3. Undecided

- 5 The American Dream Restoration Act:** Provide a \$500 per child tax credit; repeal the "marriage penalty" in the tax code; and establish a new kind of individual retirement account for which contributions are taxable but earnings are tax-free.

1. Support  
2. Oppose  
3. Undecided

- 6 The National Security Restoration Act:** Prohibit United Nations' command of U.S. troops; increase defense spending; and renew U.S. commitment to a defense against enemy missiles.

1. Support  
2. Oppose  
3. Undecided

- 7 The Senior Citizens Fairness Act:** Raise the Social Security earnings limit; repeal the 1993 tax increase on Social Security benefits; and provide tax incentives for private long-term-care insurance.

1. Support  
2. Oppose  
3. Undecided

- 8 The Job Creation And Wage Enhancement Act:** Enact small-business incentives; cut and index the capital-gains tax; curb federal regulation; bar enactment of unfunded mandates; and compensate property owners for value losses caused by government limits on use.

1. Support  
2. Oppose  
3. Undecided

- 9 The Common Sense Legal Reform Act:** Limit punitive damages in civil lawsuits and reform product-liability laws.

1. Support  
2. Oppose  
3. Undecided

- 10 The Citizen Legislature Act:** Guarantee a floor vote on a proposed constitutional amendment to limit senators to two terms and House members to three to six terms.

1. Support  
2. Oppose  
3. Undecided

Send Your Response Today



POLL RESULTS

# Readers' Views On The 103rd Congress

**T**wo of President Clinton's legislative victories in the just-ended 103rd Congress—the 1993 budget-reduction/tax-hike bill and the 1994 crime bill—drew disapproval from a vast majority of *Nation's Business* readers in a recent Where I Stand poll.

In addition, the Family and Medical Leave Act, signed by Clinton early in his term but for which the Labor Department has yet to issue regulations, still draws strong opposition.

Opposition to health-care reform also remains strong. The decision to delay action on it was strongly supported by respondents to the November poll. Leaders of the GOP-controlled 104th Congress have indicated any health-care-reform bill would be modest compared with the sweeping proposals that died in 1994.

On other important issues, Republican leaders have vowed to cut social spending from the crime law and to roll back some of the tax hikes in the 1993 budget bill.

Readers' other views in the poll were not so clear-cut. Forty-five percent approved of the law allowing banks to operate in more than one state without setting up separate corporate entities; 28 percent objected; and 27 percent had no opinion.

Here are the complete results of the survey:

## 103RD CONGRESS

- |  |                        |
|--|------------------------|
| ■ What is your reaction to the decision to delay action on health-care-reform legislation?   | 1. Mostly positive 89% |
|  | 2. Mostly negative 10  |
|  | 3. No opinion 1        |
| ■ What is your reaction to the 1993 passage of a budget bill aimed at reducing the deficit with substantial tax increases?   | 1. Mostly positive 8%  |
|  | 2. Mostly negative 91  |
|  | 3. No opinion 1        |
| ■ What is your view of the new law allowing banks to operate in more than one state without having to set up separate corporate entities?  | 1. Mostly positive 45% |
|  | 2. Mostly negative 28  |
|  | 3. No opinion 27       |
| ■ What is your assessment of the new crime law, which provides for more police, more prisons, and more money for social programs designed to prevent crime?  |                        |
| 1. Too heavy on social programs and too light on punitive actions  | 86%                    |
| 2. Too light on social programs and too heavy on punitive actions  | 5                      |
| 3. Proper mix of both approaches   | 9                      |
| ■ What is your opinion of the Family and Medical Leave Act, which requires employers to provide up to 12 weeks of unpaid leave for the illness of the worker or a close family relative or for the birth or adoption of a child? | 1. Mostly positive 24% |
|  | 2. Mostly negative 68  |
|  | 3. No opinion 8        |
| ■ Congress killed a campaign-finance bill that would have provided taxpayer subsidies to candidates who agreed to spending limits for congressional campaigns. What is your view of this aspect of the bill?                     | 1. Mostly positive 33% |
|  | 2. Mostly negative 47  |
|  | 3. No opinion 20       |

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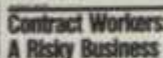
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# Editorial

## The Change In Congress Runs Deep

Decisions of the House Ways and Means Committee, which deals with taxes, trade, Social Security, and many other issues with revenue implications, reverberate throughout the entire economy. The impact on business costs can mean the difference between success and failure for many enterprises.

That committee was run for many years by Illinois Democrat Dan Rostenkowski, who scored an anemic 9 percent in an authoritative congressional-voting analysis based on support of business in 1993.

(Analysis of 1994 voting is not yet complete.) With the Republican ascendancy, the new chairman will be Bill Archer of Texas, who voted for the business position 91 percent of the time. (Archer will not succeed Rostenkowski directly, however. The Democrat, who was defeated for re-election, had surrendered his chairmanship earlier in 1994 when he was indicted.)

A similar contrast applies in every other change of leadership of the committees most concerned with business issues. These sharp differences in the approach to business issues offer a revealing comparison of the change under way in the legislative branch of government.

The ratings of how members of Congress voted on issues important to business are compiled annually by the U.S. Chamber of Commerce. A representative group of issues significant to business is selected as the basis for the analysis. A vote is considered "right" or "wrong" according to whether it supports or opposes the business position. The ratio of "right" votes to the total determines the percentage rating.

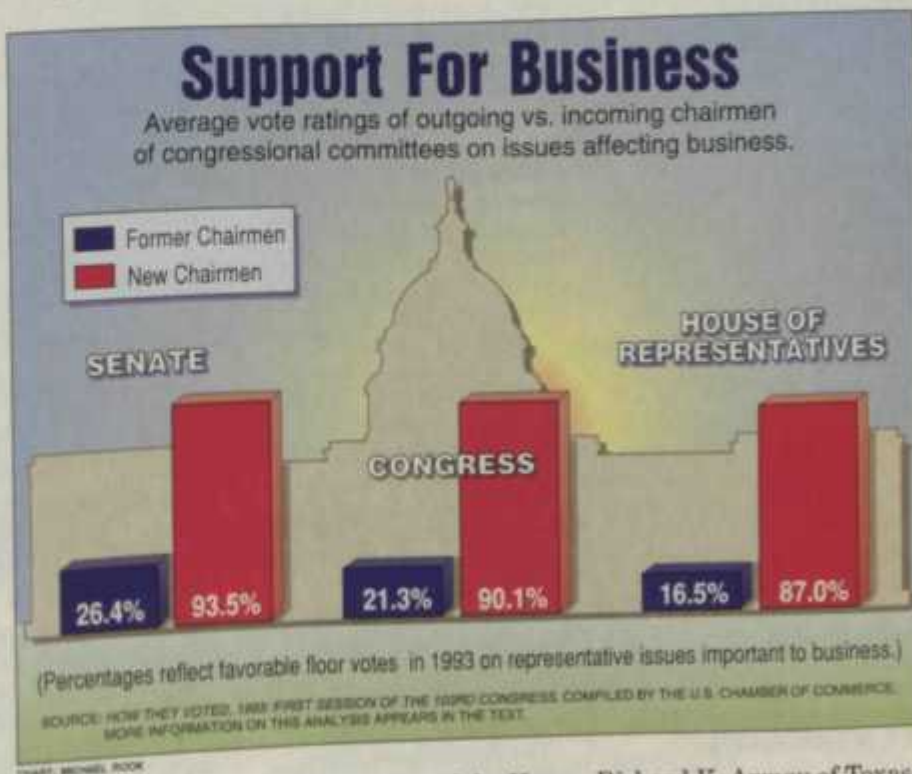
As the accompanying chart shows, the change in the congressional outlook toward business is far more sweeping than the straight election results would suggest. The Republicans taking over as chairmen of the House and Senate committees that deal with issues of top concern to business had an average pro-business rating of 90.1 percent in 1993, compared with 21.3 percent for the Democrats whom they are replacing.

In the House, the incoming chairmen had an average rating of 87 percent compared with 16.5 percent for the Democrats surrendering leadership. In the Senate, the

pro-business margin was 93.5 percent to 26.4 percent.

Changes in other committee chairmanships are equally revealing. One example: Democrat Edward M. Kennedy of Massachusetts (a 36 percent business-support rating) tilted strongly toward organized labor as chairman of the Senate Labor and Human Resources Committee but is being replaced by Republican Nancy Landon Kassebaum of Kansas, with a 91 percent Chamber rating.

The pattern also extends to the top leadership. The new



majority leader of the House, Richard K. Armey of Texas, had a 1993 Chamber rating of 100 percent, while the Democrat who held that position, Richard A. Gephardt of Missouri, was at 9 percent. The Senate's new majority leader, Bob Dole of Kansas, supported the business position 100 percent on the guidepost issues in 1993, while the man he is replacing, the retiring George J. Mitchell of Maine, had a U.S. Chamber rating of 27 percent.

The attitudes toward the enterprise system that both the leadership and the committee chairmen are bringing to their new assignments offer additional grounds for business optimism that the 60-year trend of ever-increasing government intervention in the marketplace is finally going to be rolled back.



# Free-Spirited Enterprise

By Janet L. Willen

## In With The New

Whether your New Year's resolution is to lose 25 pounds by June or to start your diet in 1996, you can keep track of how much time remains for you to meet your deadline—in hours, minutes, seconds, and fractions of a second.

Timisis, from **LifeClock**, of Chicago, is a digital clock that lets you program the time until

342,847:14:55.3  
342,847:14:55.4  
342,847:14:55.5  
342,847:14:55.6  
342,847:14:55.7  
DON'T ASK WHY

a certain date. Then it counts off the seconds for you in a display window. For further inspiration, the clock scrolls 175 messages such as "Don't ask why, ask why not" and "Dare to try." These words alternate at one-minute intervals with the current time.

The clock is made of textured plastic that looks like granite. It's shaped like an irregular pyramid. It measures 11 inches on its longest side and 4 inches on its shortest. The 1-by-3½-inch display window is on the longest side. Timisis plugs into an outlet but requires a battery to save the memory.

Cost: \$99.95, with quantity discounts available. For more information, call 1-800-TIMISIS, or 1-800-846-4747.

## That's Life

When you want to get something off your chest, you can put on a Socra-Tees T-shirt from **Marnee and Me, Inc.**, of Winter Park, Fla.

The back of the shirt displays opinions on life, relationships, sex, parenthood, motherhood, or being a woman. The front of the shirt says, "Don't just have a Philosophy \* Wear One!"

If you agree that "there's never enough time unless



you're saving it," you'll want the **Philosophies on Life** shirt. You may want **Philosophies on Parenthood** if you think that kids today "contradict their parents, gobble their food, and tyrannize their parents." (Socrates)

The shirts come in large and extra large and are white with messages in three colors. Cost: \$16. For more information, call (407) 657-3737.

## Winter Nights

Show the athlete in your life how much you care with a safety light from **Innovative Cycle Concepts, Corp.**, of Torrington, Conn.

The **Rescue 911 Bicycle Spoke Light** and the **Rescue 911 Bicycle/Sport Light** are activated by motion. The battery-operated lights have built-in motion and photo sensors. The lights shut off after the unit is completely still for about 90 seconds or when the sun is shining.

Bicyclists can use either light. The 1.6-ounce **Spoke Light** mounts to the spokes of the wheel and can be seen from as far away as 4,000 feet.

The **Bicycle/Sport Light** mounts to the seat post of a bicycle. It also comes with a strap so that joggers, walkers, or other athletes can attach it around their arms or belts. Pet lovers can attach the light to their animals'



collars. The light weighs 1 ounce and is visible from as far away as 2,000 feet.

Each light costs \$13.95. For more information, call 1-800-422-2453.

## Memory Check

You don't have to remember where you parked your car or what you want from the grocery store. Just take out your key chain. The **Message Recording Keychain**, from **KleverStuff**, of Metairie, La., lets you record messages up to 20 seconds long. You can use it to remind yourself, for example, that your car is in Aisle D of Level 2, or that you need to stop at the dry cleaner and the library, or that you must take your medicine.

The gadget works on a lithium battery and minichip. It weighs



less than 2 ounces and fits in a pocket or purse.

To record a message, slide a dial to the record indicator and push a button. To play, slide the dial to the play indicator and again push the button.

Cost: \$22.95 plus \$3.75 for shipping. For more information, call (504) 837-5050.

## On Guard

At those times when you can't watch your teenagers, you can trust others to do so.

**Teenswatch, Inc.**, of Philadelphia, is a tracking system to monitor how well teenagers are driving.

Parents enroll their children in the program, supplying license numbers of the cars the



teenagers drive. Then **Teenswatch** sends the family a bumper sticker that says, "I am a teenage driver. How's my driving? Please tell my parents. Call: 1-800-44-TEENS." Drivers or pedestrians who see the sticker can call to report the license number and the driver's performance—or an emergency; **Teenswatch** then calls the parents—or the police.

Membership costs \$19.95 per year. For more information, call 1-800-99-TEENS, or 1-800-998-3367.

## Star Struck

You can turn your computer screen into a silver screen with **Marilyn Monroe screen savers**, from **DeskTop Software**, of Enfield, Conn.

The collection, **Sam Shaw's Stars, Marilyn Monroe—Volume 1**, contains 18 photographs, including the flying-skirt picture from "The Seven Year Itch." The photos follow one another like a computer version of a slide show.

The screen saver comes on a 3½-inch, high-density disk for use with Windows/DOS or Macintosh. Cost: \$29.95. Other screen savers are also available. For more information, call (203) 741-8700, 18







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And this jet is so simple to fly, it's FAA certified for single-pilot operation.

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